

Historic, Archive Document

Do not assume content reflects current scientific knowledge, policies, or practices.



5891
a HD 1491
.25-A1

Reserve

U.S. GOVERNMENT PRINTING OFFICE
1970 50-1300-10

RESULTS AND METHODS OF FOUR MERGERS BY LOCAL SUPPLY CO-OPS

FARMER COOPERATIVE SERVICE
U.S. DEPARTMENT OF AGRICULTURE
WASHINGTON, D.C. 20250

Farmer Cooperative Service conducts research; advises directly with cooperative leaders and others; promotes cooperative organization and development through other Federal and State agencies; and publishes results of its research, issues News for Farmer Cooperatives, and other education material.

This work is aimed (1) to help farmers get better prices for their products and reduce operating expenses, (2) to help rural and small-town residents use cooperatives to develop rural resources, (3) to help these cooperatives expand their services and operate more efficiently, and (4) to help all Americans understand the work of these cooperatives.

Contents

	<u>Page</u>
Highlights	iii
Merger A	3
Developments leading to unification	3
Support and opposition to merger	3
Operating and financial features of original associations	4
Problems after unification	5
Reported advantages of merging	6
Relative success of Merger A	6
Merger B	11
Developments leading to unification	11
Support and opposition to merger	12
Operating and financial features of original associations	12
Problems after unification	14
Reported advantages of merging	14
Relative success of Merger B	14
Merger C	20
Developments leading to unification	20
Support and opposition to merger	21
Operating and financial features of original associations	21
Problems after unification	22
Reported advantages of merging	23
Relative success of Merger C	23

	<u>Page</u>
Merger D	28
Developments leading to unification	29
Support and opposition to merger	29
Operating and financial features of original associations	30
Problems after unification	31
Reported advantages of merging	31
Relative success of Merger D.	32
Conclusions.	37
Appendix.	40
Factors considered in deciding to merge	40
Unification procedures used	40
Development and revision of unification plans	41
Specific arrangements in the unification plans	41
Informational work done with members	44
Management selection in the unified cooperatives.	45

Highlights

Of four mergers of local supply cooperatives studied, three appeared to be successful 3 to 5 years after unification occurred, although two had a loss during 1 year of their existence. Two of the successful mergers each involved two original cooperatives with similar types of farm supply businesses and each included a large, strong association and a smaller, weaker one. The third successful and the one unsuccessful merger each included two associations with different types of businesses (general farm supplies and petroleum products) and with wide variations in size and financial strength. These factors, however, may not have been responsible for the mergers' success or lack of success as much as were the capabilities of management in each association.

No serious problems were encountered in accomplishing the four mergers, but each had some one-time costs. Members of the original, strong cooperatives in each merger realized smaller net savings per dollar of sales the first 1 to 3 years after unification. Reasons included failure of the stronger association to establish a clear postmerger growth plan rather than just merging to save a weaker neighboring association; slowness in eliminating duplicate facilities, jobs, and routes; too rapid expansion into new services or facilities; and inability of managers to manage larger, more diversified businesses.

In general, managers and directors believed unification resulted in these advantages: New or improved services, better utilization of

equipment and facilities, better use of personnel, and larger volume.

Three of the mergers studied had not yet operated 5 years, the minimum time officials of each unified co-op believed necessary for realizing full potentials of merger. Because of this fact, plus the very small number of cases studied, definite conclusions should not be formed on the basis of the present study.

A brief description of each merger is presented below.

Merger A consisted of a union of a strong and a weak association with similar types of general farm supply businesses. Operations of the weaker one had been on the downgrade for several years. The surviving association retained the manager, office, and name of the stronger original association. By the end of its fiscal year ending August 31, 1968, its operations had covered 2 years and 10 months.

The third year after unification, sales of merger A were about \$1.8 million, or 15 percent above the total sales of the two original associations in 1965, the year before the merger; but net margins as a percentage of sales were 1.0 percent lower. Although 1968 net margins of the unified co-op were 3.9 percent of sales above those of the original weaker co-op in 1965, they were 1.9 percent below those of the stronger co-op in that year.

Assets and liabilities of the merged association were above the two original co-ops' 1965 levels. A new fertilizer bulk blending plant and a corn drying and storage facility added \$126,631 to fixed assets. Net worth was up \$102,152, or 15 percent. Accounts receivable were in a more current position.

Merger B consisted of a union of a large, strong farm supply cooperative and a small, weak one of the same type. The surviving association retained the manager (until the fall of 1968), office, and name of the stronger co-op. At the end of 1968, it had been in operation 4 years and 2 months.

During 1968, sales of the unified association were about \$1.6 million, or 36 percent larger than the total for the two original co-ops in 1963. Net margins were double those of the two original associations in 1963, but in 1968 the unified co-op had a loss of 1.4 percent of sales--largely because of much higher expenses. Accounts receivable also became a serious problem, and a change of management and credit policy was made.

Assets of the merged association in 1968 were 43 percent more than those of the two locals in 1963. Developing more complete service centers in two communities through adding liquid nitrogen and LP gas facilities and dry fertilizer equipment increased net fixed assets by \$139,276. At the same time, liabilities increased 64 percent and net worth became a third larger.

Although a net loss occurred in 1968 after 3 years of progress, the merged association was in a reasonably strong position. If new management with support from the board can overcome the co-op's problems, members of both original co-ops should benefit from the merger in future years.

Merger C involved the union of a large feed cooperative and a smaller farm petroleum cooperative. The surviving association retained the manager of the petroleum cooperative and the name and office of the feed co-

operative. By November 30, 1968, the unified association had been in operation 4 years.

Sales of the new association in 1968 were 17 percent above the total for the original two co-ops in 1964. Net margins at the end of 3 years were about equal to the total for the two original cooperatives before they merged. In the third year (1967), the unified co-ops suffered a heavy loss due to a drastic drop in gross margins plus a continued increase in expenses; but after a change in management, its net margins reached a record high of \$100,847, or 5 percent of sales.

The unified association had \$202,000 more assets at the end of 1968 than the original co-ops had in 1964--due in part to new fertilizer blending plants, another anhydrous installation, new gas bulk plants and trucks, and remodeling of branch facilities. Liabilities increased by more than this amount and net worth was 9 percent lower than the total for the two original co-ops because of the 1967 loss.

Merger D consisted of a large farm supply cooperative and a small urban-oriented petroleum cooperative. The surviving association retained the manager and office of the farm supply association, but in 1966 the manager was replaced. At the end of 1968, the association had been in operation 5 years.

Sales of the unified co-op did not equal total sales of the two original associations until 1968--its fifth year. It had net losses of more than 3 percent on sales in 1966 and 1967, and 1.3 percent in 1968. In the 5 years of this merger, gross margins remained steady and other income as a percentage of sales increased, but expenses rose from 22 percent of sales for the original co-ops in 1963 to 27 percent in 1968 for the new co-op.

This cooperative built two new buildings at the outskirts of its headquarter's city at a cost of \$309,000 and sold its downtown properties. As a result of this and other adjustments, total assets in 1968 were only 7 percent

higher than those of the original co-ops in 1963. Liabilities almost doubled while net worth declined about \$115,000, or one-fourth, by 1968. Management thus faces a formidable task in getting this unified co-op on a successful basis.

Although developments leading up to the four mergers differed, all leaders confirmed the importance of understanding among members and support among directors and managers as essential requirements for successful mergers.

All original cooperatives used legal counsel from their regional associations or a State farm organization in developing their merger plans. Feasibility studies were used by two of the local cooperatives in the study.

Local cooperative leaders considered many factors in deciding to unify. Most common were declining sales, duplicate facilities and services, declining net savings, and inability to control credit.

Selection of a general manager for the surviving associations did not present serious problems. Usually the manager of the stronger original association was chosen. None of the cooperatives hired a manager from the outside, although leaders of two surviving merged associations indicated they would have been better off if that route had been taken.

Results of these four mergers indicate that combining volume, assets, and other resources

does not immediately guarantee improved results or always justify new, expanded facilities. And managers retained from the stronger cooperative could not always successfully handle larger, more complex enterprises.

Findings also indicate that the apparent degree of success of a merger may be influenced by the particular time a study of it is made. The last year of operation may have been one of low net margins or even a loss, or a record year following a very poor one.

Mergers involving small-scale operations and no clear growth strategy seem likely to offer limited opportunities for improvement except in services. These merged associations are likely to experience reduced overall net savings the first 2 or 3 years. While net savings for members of the weaker cooperatives will be improved, savings for the members of the stronger ones will be less.

Later studies, therefore, should be made to determine if operations improve over the long run to where members of both original associations benefit, and to determine whether mergers result in steady or increased volume for their affiliated wholesaling-manufacturing cooperatives.

Further studies of mergers of different types of farm supply co-ops should be made to develop more definite conclusion and guidelines for estimating probable benefits in services and financial gains. Such studies should be made in two phases: (1) Shortly after the merger occurs to determine objectives, procedures used, and problems; and (2) 5 or more years after combining to obtain results of the action.

Results and Methods of Four Mergers By Local Supply Co-ops

by James E. Haskell
Cooperative Appraisal Division
Specialized Cooperative Research Program

In recent years, farm supply cooperatives, as well as other business firms, have become interested in combining their resources to strengthen their economic position in an increasingly competitive agricultural economy. Many cooperative leaders foresee advantages of unification through added purchasing power, increased efficiency in facility and personnel use, diversification of product lines, improved services to members, increased savings, and the like. Others foresee problems and disadvantages of both an economic and a non-economic nature. Both groups, as well as representatives of regional cooperatives, universities, and other institutions, desire more information on merger procedures used, problems encountered and solved, and results of mergers after several years of operation.

They are interested in financial results and whether the surviving associations have achieved the goals or objectives for which the mergers were originally designed, and whether the full potential of the mergers has been attained.

Farmer Cooperative Service therefore undertook this study to provide information that would be helpful to farm leaders and others interested in mergers of cooperatives.

The broad purposes of the study reported on here were: (1) To determine developments leading to unification of selected local farm supply cooperatives in the Midwest and the results of these mergers, and (2) to provide guidelines and standards of use to other cooperatives, Farmer Cooperative Service, land-grant universities, and others in determining the feasibility of proposed mergers.

Representatives of two regional cooperatives in the North Central States were asked to help select mergers for study. Examples sought were mergers--both successful and unsuccessful--that had been in effect for at least 3 years.

Most of the data in this study were obtained from personal interviews with directors and managers of each local association in 1967. The associations' annual audits for 2 to 3 years before unification and for each year following unification were used to develop operational and financial trends. Later information and audits were obtained by mail in 1968 and 1969.

To mask the identity of each local cooperative, symbols are used in place of names. An explanation of these symbols follows:

1. Small letters are used with numbers (a-1 and a-2) to indicate the two original associations which combined.
2. Capital letters (A) indicate the resultant surviving association. Thus, a-1 and a-2 merged to become A; b-1 and b-2 became B.
3. In each case, the original association given the numerical designation 1 (in other words, the a-1 association) was either:
 - a. The larger, stronger association.
 - b. The association whose name was retained in the surviving cooperative.
 - c. The association whose manager was retained by the surviving cooperative.
 - d. The association whose main office became headquarters of the surviving association.
 - e. The acquiring cooperative, where unification was by means of acquisition.
 - f. A combination of the above.

The types of original cooperatives making up the four mergers and the length of time the mergers had been in existence at the end of the merged co-ops' 1968 business years are:

Merger A--2 years and 10 months.

Co-op a-1--a large, strong, general farm supply association.
Co-op a-2--a small, weak, general farm supply association.

Merger B--4 years and 2 months.

Co-op b-1--a large, strong, farm supply cooperative.
Co-op b-2--a small, weak, farm supply cooperative.

Merger C--4 years.

Co-op c-1--a small farm petroleum cooperative.
Co-op c 2--a large feed cooperative.

Merger D--5 years.

Co-op d-1--a a large farm-supply cooperative.
Co-op d-2--a small farm and urban-oriented petroleum cooperative.

The approach used in this report is the case method. The subjects discussed are: (1) The developments leading to unification; (2) support and opposition to merger; (3) operating and financial features of original associations; (4) problems after unification; (5) reported advantages of merging; and (6) relative success of each merger.

Following the findings on the four mergers are conclusions and an appendix with sections on factors considered in deciding to merge, unification procedures used, specific arrangements in the unification plans, informational work done with members, and management selection in the unified cooperatives.

Throughout the analysis, the term "merger" is considered in the broad sense of unifying or combining associations through merger, consolidation, or acquisition. Technically, a merger is an absorption of one association by another which retains its corporate identity. A consolidation is a union of two or more organizations resulting in creation of a new association and termination of those consolidating. An acquisition is the purchase of one organization's assets by another association. In actual practice, the effect of all three often is essentially the same. The terms "cooperative" and "association" are used interchangeably in this report.

Merger A

Association a-1, organized in 1935, merged on April 1, 1966, with association a-2, formed in 1924. Both original cooperatives were engaged in similar types of business. Petroleum products--gasoline, fuel oil, and lube oil--constituted over a third of the volume of both. Other farm supplies--primarily feed, seed, fertilizer, and hardware--accounted for the remainder.

Association a-1 had 1,690 members and 1,300 patrons before the merger; a-2 had 475 members and 570 patrons. The surviving association had about 1,750 members in 1967 and 1,650 in 1968.

The resulting cooperative A retained the manager, office location, and name of the larger association.

Developments Leading to Unification

Association a-1 became interested in merging mainly because it was approached by the other cooperative with the suggestion. The question had never been considered before the proposal was received (3 months before the merger took place). After the initial proposal, the larger association's leaders felt there might possibly be some long-range benefits in merging. Such a course would create an expanded area to serve and a better purchasing advantage due to the larger size of the cooperative that would result. Their major reason for considering merger, however, was not economic but altruistic--they wanted to keep the weaker cooperative from "going under." When managers and directors of the stronger association were asked to rate a list of factors as to their importance in influencing the decision to merge (app. table 1), none was rated as "very important" or as "medium important."

Association a-2 wanted to merge primarily because it was unable to obtain and keep a competent manager. In the preceding 5 years,

three different managers had tried to solve the cooperative's problems--low and declining volume, consistent losses, inadequate capital, and poor credit control. The association also was too small to obtain purchasing and merchandising advantages which would help alleviate these problems. The directors had long been aware of the successful record of their neighboring cooperative (a-1), with its capable, aggressive management. And they realized they could not hire and keep such a manager as the other cooperative had because of their low budget. Therefore, they decided to consider some type of unification with the stronger, larger association--and share the benefits of proven, good management--if the other cooperative would agree.

Managers and directors of the weaker association rated as "very important" in the decision to merge such factors as reduced volume in their association, a decline in net savings, inability to control credit, a large indebtedness, and inadequate capital.

Support and Opposition to Merger

The vote of directors and members of each association on the merger proposition was as follows:

	<u>a-1</u> Number	<u>a-2</u> Number
Directors voting for	8	5
Directors voting against	0	0
Members voting for	220	76
Members voting against	3	12

Support for the plan may be summarized as follows: Directors of both original associations unanimously agreed that the manager of cooperative a-1 strongly supported all phases of the merger plan. They listed the following reasons for his vigorous support, in

order of importance: (1) A desire to help the other cooperative recover financially; (2) possible long-range benefits for members of both cooperatives due to increased economies of size; and (3) his confidence in the future of the cooperative movement.

The manager of association a-2 did not participate in the merger process. Opinions expressed by directors of both original associations indicated that he did not oppose the proposed merger but was reluctant to speak out in favor of it. Two directors felt he was glad to relinquish his job because of the cooperative's poor performance. This manager was subsequently assigned to the position of branch manager after the merger but has since been replaced.

Members raised few objections against the proposed merger. A few members of the stronger association, a-1, mildly objected because they thought unification with a less successful local cooperative might interfere with the highly successful results of their own cooperative.

Some members of the smaller cooperative, a-2, also were not in favor of merging. Because of strong and often personally satisfying member-owner-patron relationships, "human" problems arose regarding the decision to seek merger. With merger, the smaller cooperative's business would be legally terminated. Several members, long proud of the business they owned, did not want to "throw in the towel" or "sell out," even though they recognized probable advantages through merger.

Operating and Financial Features of Original Associations

This section briefly describes trade areas, facilities, services, operating results, and financial aspects of the two merging cooperatives.

TRADE AREA, FACILITIES, AND SERVICES

Association a-1 had a trade area radius of approximately 15 miles, compared with 10 miles for association a-2. Some overlapping in trade area occurred but was of little consequence. The larger association had one branch in a nearby community; the smaller one did not have branch facilities.

The larger cooperative operated two petroleum bulk plants, two feed mills, two service stations, a bulk blending plant, and 34 trucks. It also had fertilizer application equipment. The smaller cooperative had a petroleum bulk plant, service station, and feed mill, and operated five trucks. Both cooperatives offered bulk delivery of petroleum, grinding and mixing of feed, bulk feed delivery, and service station facilities.

TRENDS IN SALES AND NET MARGINS

Association a-1 had a volume four to five times larger than association a-2. It showed steady increases in sales from 1963 to 1965, while sales of association a-2 remained relatively constant from 1963 to 1964 and even decreased in 1965 (table 1).

Net margins were much more impressive in association a-1 than in association a-2. Net margins before taxes increased from 6.0 percent of sales in 1963 to 6.6 percent in 1965. During this same period, cooperative a-2 went from a loss of 1.7 percent to a gain of 0.8 percent of sales.

TRENDS IN ACCOUNTS RECEIVABLE, LIABILITIES, AND NET WORTH

Association a-1 had a decrease in accounts receivable from 1964 to 1965; association a-2 had an increase (table 2). In 1965, accounts over 6 months old represented an unusually large percentage of total accounts receivable in association a-2. Over 55 percent, or \$33,500 in accounts, were over 6 months old.

Both original cooperatives showed increases in total liabilities for 1963-65. Liabilities of

Table 1.--Trends in sales and net margins of co-ops a-1 and a-2, 1963-65

Year ¹	Co-op a-1			Co-op a-2		
	Total sales	Net margins		Total sales	Net margins	
		Amount	Percentage of sales		Amount	Percentage of sales
	<u>Dollars</u>	<u>Dollars</u>	<u>Percent</u>	<u>Dollars</u>	<u>Dollars</u>	<u>Percent</u>
1963.....	1,121,253	66,721	6.0	274,021	4,765	1.7
1964.....	1,204,116	68,676	5.7	278,940	5,440	2.0
1965.....	1,336,517	88,298	6.6	275,195	2,318	0.8

¹ Business years of a-1 ended Dec. 31 and those of a-2 ended Oct. 31.

Table 2.--Trends in three financial items of co-ops a-1 and a-2, 1963-65

Year ¹	Accounts receivable		Liabilities		Net worth	
	a-1	a-2	a-1	a-2	a-1	a-2
----- <u>Dollars</u> -----						
1963.....	--	--	21,040	60,132	459,780	104,336
1964.....	94,176	54,208	46,468	53,428	492,791	109,175
1965.....	84,953	60,260	50,800	70,654	543,479	108,088

¹ See footnote 1, table 1.

a-2 were greater than those of a-1 for each year, even though a-1 did nearly five times as much business (in terms of sales) as a-2.

Net worth of a-1 showed a consistent increase from 1963 up to the time of merger (April 1966). In contrast, a-2 had only a small increase during the 3-year period and net worth actually declined by \$1,000 from 1964 to 1965.

Problems After Unification

The main problems encountered soon after the merger were:

1. Credit collection.--Members of original cooperative a-2 had large amounts of past-due

accounts. The manager of the surviving association installed a "strong-arm" credit policy to collect these accounts and lost some patrons as a result.

2. Control of inventories and operations.--The business was more difficult to supervise because of the larger number of facilities and the larger trade area to serve.

3. Location of headquarters.--A few members of association a-2 did not patronize the unified cooperative because its home office was not in their town.

4. Skepticism.--Some members of association a-2 were skeptical of the merger and the ambition of present management. They failed to faithfully patronize the surviving association.

Reported Advantages of Merging

Directors and managers of the merged association believed that the following advantages had resulted or were beginning to occur from this merger:

1. Better utilization of equipment and facilities.
2. Increased volume and total savings, especially for members of weaker associations, although lower net savings per dollar of sales were received by members of the former stronger cooperative.
3. Improved credit control.
4. Improvement in the capital structure (over that of former association a-2).
5. Better personnel utilization and improved work from employees.
6. Increased and improved services.
7. More efficient use of capital.
8. Better purchasing advantage due to expanded territory.

Relative Success of Merger A

This merger of a large, strong association with a small, weak association has resulted in a single strong cooperative.

The combined association has shown good results, based on data for the first 3 operating years after unification. Most of the problems of the weaker association had been resolved by the time the study was made. Accounts receivable were still large but not considered a major problem.

Perhaps the greatest measure of success is the fact that the original weak association, a-2, was "saved" by unification. It had a history of declining sales and savings, increasing

expenses and accounts receivable, inability to obtain and keep competent management, and loss of membership. All signs pointed to the continuance of these trends and its eventual dissolution.

Following are highlights of operating results and financial data for the surviving association (2 years and 10 months after unification) and for the original cooperatives immediately prior to merging.

SALES INCREASE; GROSS MARGINS AS PERCENTAGE OF SALES REMAIN STEADY

The surviving association's dollar sales for 1968 totaled over \$1.8 million, or about 15 percent more than the total sales of cooperatives a-1 and a-2 in 1965 (table 3 and fig. 1).

In 1968, petroleum and feed made up a smaller percentage of total sales, but fertilizer accounted for a larger proportion in co-op A than in the two original co-ops in 1965 (table 4). Also, co-op A began handling grain in 1968.

Gross margins, including service revenue, also improved, but as a percentage of sales they remained steady. The surviving association had a gross margin of \$440,544, or 23.8 percent of sales, in 1968; combined margins of both original associations were \$382,822, or 24 percent of sales in 1965.

EXPENSES INCREASE AND NET MARGINS DECREASE AS A PERCENTAGE OF SALES

The merged association's total operating expenses in 1968 were \$372,597, or 20.1 percent of sales. This was 2.4 percent more than for the two original cooperatives combined in 1965. An increase in merchandising and general expenses as a percentage of sales accounted for most of this increase (table 5). The increase in merchandising expenses was mainly due to an increase in salaries and wages paid by the surviving cooperative.

**SALES, NET WORTH, AND NET MARGINS OF CO-OP A,
1966-68 AND TOTAL FOR CO-OPS a-1 AND a-2, 1965**

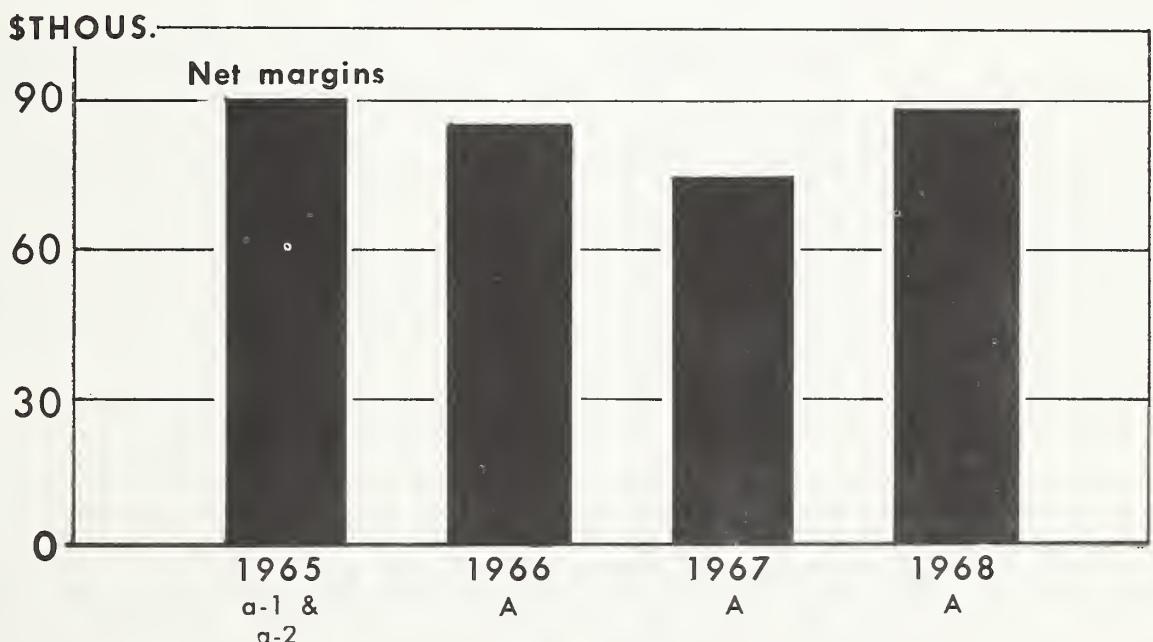
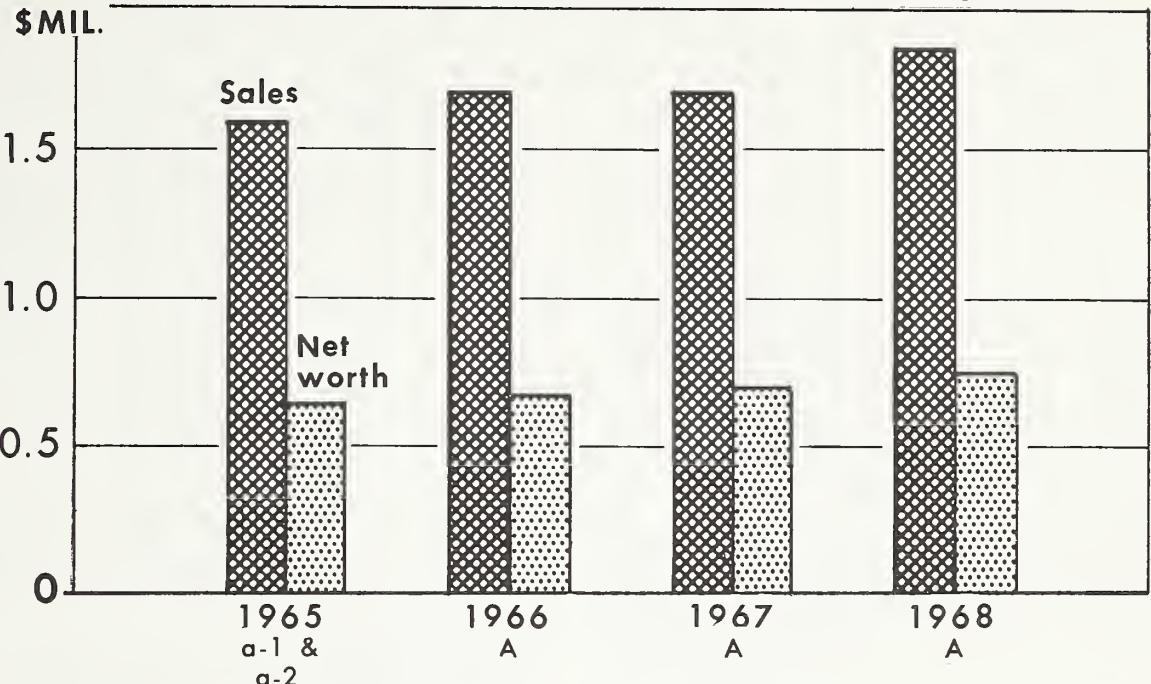


FIGURE 1

Table 3.--Operating statements of co-op A, 1966-68, and co-ops a-1 and a-2, separate and combined, 1965¹

Item	Co-op A					
	Year ended Aug. 31, 1968		10 months to Aug. 31, 1967 ²		Year ended Oct. 31, 1966	
	Amount	Percentage of sales	Amount	Percentage of sales	Amount	Percentage of sales
<u>Dollars</u> <u>Percent</u> <u>Dollars</u> <u>Percent</u> <u>Dollars</u> <u>Percent</u>						
Net sales ³	1,852,081	100.0	1,702,107	100.0	1,705,479	100.0
Cost of sales.....	1,411,536	76.2	1,302,702	76.5	1,295,020	76.0
Gross margins ³	440,545	23.8	399,405	23.5	410,459	24.0
Operating expanses.....	372,597	20.1	333,855	19.6	327,697	19.2
Net operating margin.....	67,948	3.7	65,550	3.9	82,762	4.8
Other revenue (net) ⁴	19,169	1.0	12,118	0.7	1,562	0.1
Total net margin...	87,117	4.7	77,668	4.6	84,324	4.9
Total of a-1 and a-2, 1965						
a-1, year ended Dec. 31, 1965						
<u>Amount</u> <u>Percentage of sales</u> <u>Amount</u> <u>Percentage of sales</u> <u>Amount</u> <u>Percentage of sales</u>						
<u>Dollars</u> <u>Percent</u> <u>Dollars</u> <u>Percent</u> <u>Dollars</u> <u>Percent</u>						
Net sales ³	1,611,713	100.0	1,336,517	100.0	275,195	100.0
Cost of sales.....	1,228,890	76.2	1,006,650	75.5	220,240	80.1
Gross margins ³	382,823	23.8	327,867	24.5	54,955	19.9
Operating expanses.....	286,024	17.7	235,008	17.6	51,015	18.5
Net operating margin.....	96,799	6.1	92,859	6.9	3,930	1.4
Other revenue (net) ⁴	-6,173	-0.4	-4,561	-0.3	-1,612	-0.6
Total net margin...	90,626	5.7	88,298	6.6	2,328	0.8

¹ Data of merger was April 1, 1966. Sales of co-op A ending on Oct. 31, 1966, included those of co-op a-1 from Jan. 1, 1966, and of co-op a-2 from Nov. 1, 1965, through March 31, 1966.

² Ten months only due to change in year ending.

³ Includes revenue from such services as feed grinding and mixing and seed treating.

⁴ After deducting "other expenses," such as interest, bad debts, and sales discounts from "other revenue" such as patronage refunds, interest, purchase discounts, and recoveries of bad debts.

Table 4.--Sales of selected items as a percentage of total sales, co-op A, 1966-68, and co-ops a-1 and a-2, 1965¹

Item	Co-op A			Total of a-1 and a-2, 1965	Co-op a-1, 1965	Co-op a-2, 1965
	1968	1967	1966			
-----Percent-----						
Petroleum	22	23	27	29	28	30
Feed.....	30	31	31	34	33	35
Fertilizer....	16	21	13	13	13	12
Hardware and other supplies.....	23	25	29	24	26	23
Grain.....	9	0	0	0	0	0
Total.....	100	100	100	100	100	100

¹ See table 3 for dates business years ended.

Table 5.--Expenses for selected items as a percentage of net sales, co-op A, 1966-68, and co-ops a-1 and a-2, 1965¹

Type	Co-op A			Total of a-1 and a-2, 1965	Co-op a-1, 1965	Co-op a-2, 1965
	1968	1967	1966			
-----Percent-----						
Merchandising.	12.4	12.9	12.7	11.2	11.5	10.3
Administrative	2.7	2.7	2.6	2.8	2.5	4.0
General.....	5.0	4.0	3.9	3.7	3.6	4.2
Total.....	20.1	19.6	19.2	17.7	17.6	18.5

¹ See table 3 for dates business years ended.

Other income, after deducting other expenses, was 1.0 percent of sales in 1968, compared with -0.4 percent for the two associations in 1965.

Net margins as a percentage of sales, therefore, were 1.0 percent lower in association A in 1968 than for the total of a-1 and a-2, 3 years earlier. They amounted to \$87,117, or 4.7 percent of sales, in 1968, compared with combined margins of \$90,616, or 5.7 percent of sales, for the original cooperatives in 1965.

The impact of the merger on the members of the two original associations is further indicated in table 6. In 1968, former members of the stronger association (a-1) realized lower net margins than in their last year as a separate co-op--largely because of higher expenses

Table 6.--Extent that co-op A's operating margins and expenses in 1968 varied from those of co-ops a-1 and a-2 in 1965¹

(Increase or decrease as a percentage of sales)

Item	Co-op A in 1968 compared with--	
	Co-op a-1 in 1965	Co-op a-2 in 1965
-----Percent-----		
Gross margins (including service revenue).....	-0.7	+3.9
Operating expenses.....	+2.5	+1.6
Net operating margins.....	-3.2	+2.3
Other revenue (net after other expense).....	+1.3	+1.6
Total net margins.....	-1.9	+3.9

¹ See table 3 for dates business years ended.

per dollar of sales. Former members of the weaker association (a-2), however, realized substantially higher net margins, mainly because of higher gross margins and other revenue.

ASSETS, LIABILITIES, AND NET WORTH INCREASE

Total assets of the surviving cooperative on August 31, 1968, were \$131,369 larger than the combined assets of \$773,000 for the two co-ops before merger on October 31, 1965 (table 7). Current assets of co-op A were \$42,184 less, but investments were up \$45,823 and fixed assets were \$126,631 greater as a result of a new fertilizer bulk blending plant and a corn drying and storage facility.

Accounts receivable in 1967 were lower than the total accounts of the original associations before merging in 1965 (table 8). At the end of 1968, they represented 23 days of total sales and about 33 days of charged or credit sales, compared with 33 and 40 days for a-1 and a-2, respectively, in 1965.

Accounts receivable were in a more current age status, however, in 1968 than combined receivables of a-1 and a-2 in 1965 (table 9). Cash and inventories were less in 1968 than in 1965.

Table 7.--Condensed balance sheets of co-op A, 1966-68, and co-ops a-1 and a-2, separate and totaled, 1965¹

Item	Co-op A			Total of a-1 and a-2, 1965	Co-op a-1, Dec. 31, 1965	Co-op a-2, Oct. 31, 1965
	Aug. 31, 1968	Aug. 31, 1967	Oct. 31, 1966			
-----Dollars-----						
Current assets.....	317,135	300,946	282,856	359,329	252,443	106,886
Investments.....	189,664	169,939	151,490	143,841	120,134	23,707
Fixed assets (net).....	395,965	414,612	306,966	269,334	221,702	47,632
Other assets.....	1,626	1,631	1,697	517	--	517
Total assets.....	904,390	887,128	743,009	773,021	594,279	178,742
Current liabilities						
Noncurrent liabilities.	75,560	151,426	33,046	82,068	29,414	52,654
	75,111	30,815	31,019	39,386	21,386	18,000
Total liabilities....	150,671	182,241	64,065	121,454	50,800	70,654
Net worth.....	753,719	704,887	678,944	651,567	543,479	108,088
Total liabilities and net worth....	904,390	887,128	743,009	773,021	594,279	178,742

¹ Date of merger was April 1, 1966.

Table 8.--Selected financial items of co-op A, 1966-68, and co-ops a-1 and a-2 combined, 1965¹

Item	Co-op A			Total of co-ops a-1 and a-2, 1965
	1968	1967	1966	
-----Dollars-----				
Cash.....	80,588	56,439	52,324	98,663
Accounts receivable (net).....	129,518	134,178	135,083	136,233
Inventories.....	95,231	100,798	89,558	114,539

¹ See table 3 for dates business years ended.

Total liabilities of surviving association A in 1968 were about \$29,217 larger than combined liabilities of the two original associations in 1965.

Cooperative A's net worth was \$102,152 or 15 percent greater at the end of 1968 than net

worth of the two original associations combined at the end of 1965. This improvement was shown even though over \$31,000 worth of capital equities were redeemed in 1967, and \$15,137 were redeemed in 1968.

Table 9.--Accounts receivable, by age, as a percentage of total, co-op A, 1966-68, and co-ops a-1 and a-2, 1965¹

Age	Co-op A			Total of a-1 and a-2, 1965	Co-op a-1, 1965	Co-op a-2, 1965
	1968	1967	1966			
<u>Percent</u>						
Less than 60 days.....	47.6	51.4	--	--	--	--
60 days to 6 mos.....	29.0	33.8	--	--	--	--
Less than 6 mos.....	76.6	85.2	83.0	72.8	92.7	44.4
6 mos. to 1 year.....	12.6	7.2	10.4	17.4	7.3	31.6
Over 1 year.....	10.8	7.6	6.6	9.8	0	24.0
Total.....	100.0	100.0	100.0	100.0	100.0	100.0

¹ See table 3 for dates business years ended.

Merger B

On November 1, 1964, association b-1 acquired the fixed assets, accounts receivable, and other appurtenances of association b-2 and formed the surviving cooperative B.

Both original local associations were engaged in similar types of business. Each had three recognized departments--petroleum, feed and seed, and fertilizer. Association b-1 realized about 50 percent of its sales from the petroleum department and about 25 percent from each of the other departments. Cooperative b-2 relied on the fertilizer department for half of its sales; petroleum accounted for about one-third and feed and seed for about one-sixth.

Association b-1 had 1,000 members and 1,500 patrons immediately before the acquisition, and b-2 had 800 members and 960 patrons. The surviving association had 1,500 members in 1965 and 980 in 1968 after transferring or retiring the stock of inactive members.

Cooperative B retained the name, manager, office location, structure, and policies of original association b-1.

Developments Leading to Unification

Management and directors of association b-1 did not become interested in merging until they were approached by the board president of cooperative b-2 and a representative of the regional cooperative with which it was affiliated. Directors of association b-1 could not foresee any advantages of the merger for their cooperative but realized the plight of their neighboring cooperative and agreed to consider any unification plans it might offer. The manager of association b-1, however, became interested because of possible efficiencies in personnel, equipment, and territorial distribution that might occur.

Cooperative b-2 first became interested in some form of unification in the spring of 1964. It was experiencing difficulty in hiring and keeping a good manager; in fact, this cooperative operated without a manager for a year before the acquisition became effective. The former manager was released for personal reasons in 1963. The regional cooperative of which association b-2 was an

affiliate sent a man to "fill in" until something could be worked out.

Financial problems also contributed to b-2's interest in unification. The association had a consistent record of decreasing sales, margins, and savings, and increasing accounts receivable and liabilities. Board members realized that only some kind of merger with a stronger cooperative could solve their problems. The natural choice was a sound, successful cooperative located in a nearby town--association b-1.

Leaders of the weaker association listed the following as very important in their desire to merge: Reduced volume, decline in net savings or increase in losses, inability to control credit, and large indebtedness (app. table 1). They considered inadequate capital to be of medium importance. Representatives of the stronger association, b-1, considered few of the factors listed in appendix table 1 in deciding on unification. None were considered very important or of medium importance.

Support and Opposition to Merger

The vote of directors and members of the associations on the proposal was as follows:

	b-1 Number	b-2 Number
Directors voting for	6	6
Directors voting against	0	0
Members voting for (approx.)	(¹)	760
Members voting against (approx.)	(¹)	40

¹ This was an acquisition, so a membership vote by the acquiring firm was not required.

Members and directors of association b-1 did not oppose the acquisition plan but did display caution. They realized that it would be a big step to take and that more responsibility would be placed on their already over-

burdened manager. Employees and members of association b-2 were somewhat hesitant to "sell out" to the stronger cooperative. They knew that all identity with their cooperative would be lost, and some persons had been members or directors of that association for many years.

The manager of original association b-1 strongly (but cautiously) supported the merger. He foresaw advantages in personnel and facility utilization but at the same time realized the expanded territory could create managerial and transportation problems. As previously mentioned, association b-2 did not have a permanent manager at the time unification was being planned. A replacement from the regional association acted as manager during this period and gave general support to the acquisition plan.

Operating and Financial Features of Original Associations

This section briefly describes trade areas, facilities, services, operating results, and financial aspects of the two merging cooperatives.

TRADE AREA, FACILITIES, AND SERVICES

The two original cooperatives operated within a trade area of two large counties. Both cooperatives offered similar services to their member patrons and had similar facilities--bulk blending plants, petroleum bulk plants, and aqua ammonia plants. Cooperative b-1 also operated a service station. Services offered by both cooperatives included bulk petroleum and feed deliveries, fertilizer blending, fertilizer application, and seed cleaning.

TRENDS IN SALES AND NET MARGINS

Historical trends in sales of original associations b-1 and b-2 presented a sharp

contrast. Total volume was increasing significantly in cooperative b-1 before the date of acquisition, while that of co-op b-2 was declining (table 10).

Cooperative b-1 increased net margins slightly from 1963 to 1964. They were equal to about 6 percent of sales each year. Association b-2, however, showed substantial losses each year--due primarily to reduced sales and a drop in gross margins as a percentage of sales.

TRENDS IN ACCOUNTS RECEIVABLE, LIABILITIES, AND NET WORTH

Both local associations had extremely large amounts of accounts receivable, as shown in

table 11. Age of the accounts varied greatly, however. In 1964, only \$2,000 of the accounts receivable in association b-1 were over 1 year old. In contrast, nearly \$30,000 of cooperative b-2's accounts were over 2 years old.

Liabilities of cooperative b-1 increased from 1963 to 1964 because it purchased all assets and assumed all liabilities of association b-2 on November 1, 1964.

Net worth of association b-1 was considerably higher than for cooperative b-2; it increased from \$278,100 in 1963 to \$344,124 in 1964. In contrast, association b-2 experienced a decline in net worth during the same period.

Table 10.--Trends in sales and net margins of co-ops b-1 and b-2, 1963-64

Year ¹	Co-op b-1			Co-op b-2		
	Total sales	Net margins		Total sales	Net margins	
		Amount	Percentage of sales		Amount	Percentage of sales
	Dollars	Dollars	Percent	Dollars	Dollars	Percent
1963.....	768,692	51,842	6.7	391,332	-10,402	-2.7
1964.....	2877,294	54,633	6.2	293,219	-17,900	-6.1

¹ Business years of both associations ended Dec. 31.

² Sales figures for 1964 include 2 months (Nov. and Dec.) in combination with association b-2.

Table 11.--Trends in three financial items of co-ops b-1 and b-2, 1963-64

Year ¹	Accounts receivable		Liabilities		Net worth	
	b-1	b-2	b-1	b-2	b-1	b-2
<u>Dollars</u>						
1963.....	94,607	57,019	117,354	163,969	278,100	58,146
1964.....	106,436	96,110	342,824	239,894	344,124	40,245

¹ See footnote 1 table 10.

Problems After Unification

The principal business problems encountered soon after merging are given below:

1. Difficulty was experienced in providing prompt and efficient service in the more distant parts of the large trade area of the unified association.
2. Association b-2 had lost many of its members during the operational and financial slide preceding the merger. A perplexing problem of the surviving association was to regain this lost membership.
3. Insufficient help became a problem with the increased sales territory to serve.
4. A large number of bad accounts were inherited.

Directors indicated that the only noneconomic problems soon after merging were:

1. Members of original cooperative b-2 did not strongly support the merger because of pride in their former cooperative, even though advantages of merging were apparent.
2. Some members and directors from cooperative b-2 were disturbed about the licensing of bulk delivery trucks. Previously, b-2's trucks bore license plates representing the county of its home office. After the acquisition, however, these trucks were licensed in the adjoining county where association B was headquartered. Even though the trucks and drivers were the same as before unification, some members and directors did not look upon the trucks as being from "their" cooperative.

Reported Advantages of Merging

Leaders listed the following as advantages of this merger:

1. Improved services to members.

2. Increased volume and savings.
3. Improvement in employee performance and utilization.
4. Economies of size.
5. Elimination of duplicate facilities and reduction of excess capacity.

The next section indicates that association B had realized, or was beginning to realize, most of the advantages which had stimulated interest in merging.

Relative Success of Merger B

This merger of a large, strong, farm supply cooperative and a smaller, weaker one resulted in a larger, stronger surviving cooperative for 3 years; in the fourth year, however, the unified co-op suffered an operating loss and its accounts receivable became a serious problem.

After the merger late in 1964, both sales and net margins increased significantly in each of the next 3 years compared with the total operations of b-1 and b-2 in 1963, their last full operating year. Two complete "service centers" including bulk fertilizer plants were built in nearby communities and a feed warehouse was constructed in one to more efficiently serve farmers.

Operations were controlled well from 1965 to 1967, considering the substantial increase in current and fixed assets which resulted in larger liabilities and more operating costs. As a result, net margins in 1967 were double those of the original co-ops in 1963. But in 1968, sales declined, expenses increased, and a net loss of 1.4 percent of sales occurred. A change in management and in credit policy was made in the fall of 1968.

In 1966 and 1967, former members of the original larger, stronger cooperative (b-1) realized about the same net savings as in their separate association in 1963; and members of the smaller, weaker association (b-2) received much larger savings. If the new manager, with support from the board, can overcome the adverse year of 1968, members from both original cooperatives should benefit from the merger in future years.

Operating results and financial data for the surviving association (4 years and 2 months after unification) are compared below with results and data for the original cooperatives.

SALES INCREASE; GROSS MARGINS STEADY

Sales of the unified cooperative in 1968 were about \$1.6 million, or 36 percent greater than combined sales of the two local cooperatives in 1963 (table 12 and fig. 2). Gross margins per dollar of sales remained near 19.5 percent, close to the 1963 level for the two locals combined, but service revenue and other income (mostly patronage refunds) increased substantially.

Association B has placed increased emphasis on petroleum sales since the unification. About 26 percent of total sales of associations b-1 and b-2 were by the petroleum departments in 1963. The proportion increased to 45 percent of total sales in the surviving association in 1968 (table 13). Feed also became a larger share and fertilizer declined.

EXPENSES INCREASE; NET MARGINS IMPROVE, THEN DROP IN 1968

Total operating expenses of the surviving association increased some from 1965 to 1967 as sales improved. As a percentage of sales, expenses remained a little under the total for the two locals in 1963 (table 12). But in 1968, expenses jumped over \$51,000--to 24.9 percent of sales, compared with 19.6 percent in 1967. A net operating loss of 4.5 percent occurred. After taking into account other in-

come and other expenses, the loss was reduced to 1.4 percent.

The surviving association, like the original associations, has relied heavily on other revenue--mostly patronage refunds from regional cooperatives--for its net margins.

In 1967, cooperative B had total net margins of \$84,033, or 4.8 percent of sales. This was more than double the net margins of the original associations in 1963, when they totaled \$41,440, or 3.6 percent of sales. But former members of co-op b-1 (the larger association) obtained lower net margins, mainly because of lower gross margins (table 14). Members of b-2 (the smaller association) obtained much larger net margins and other revenue and lower expenses.

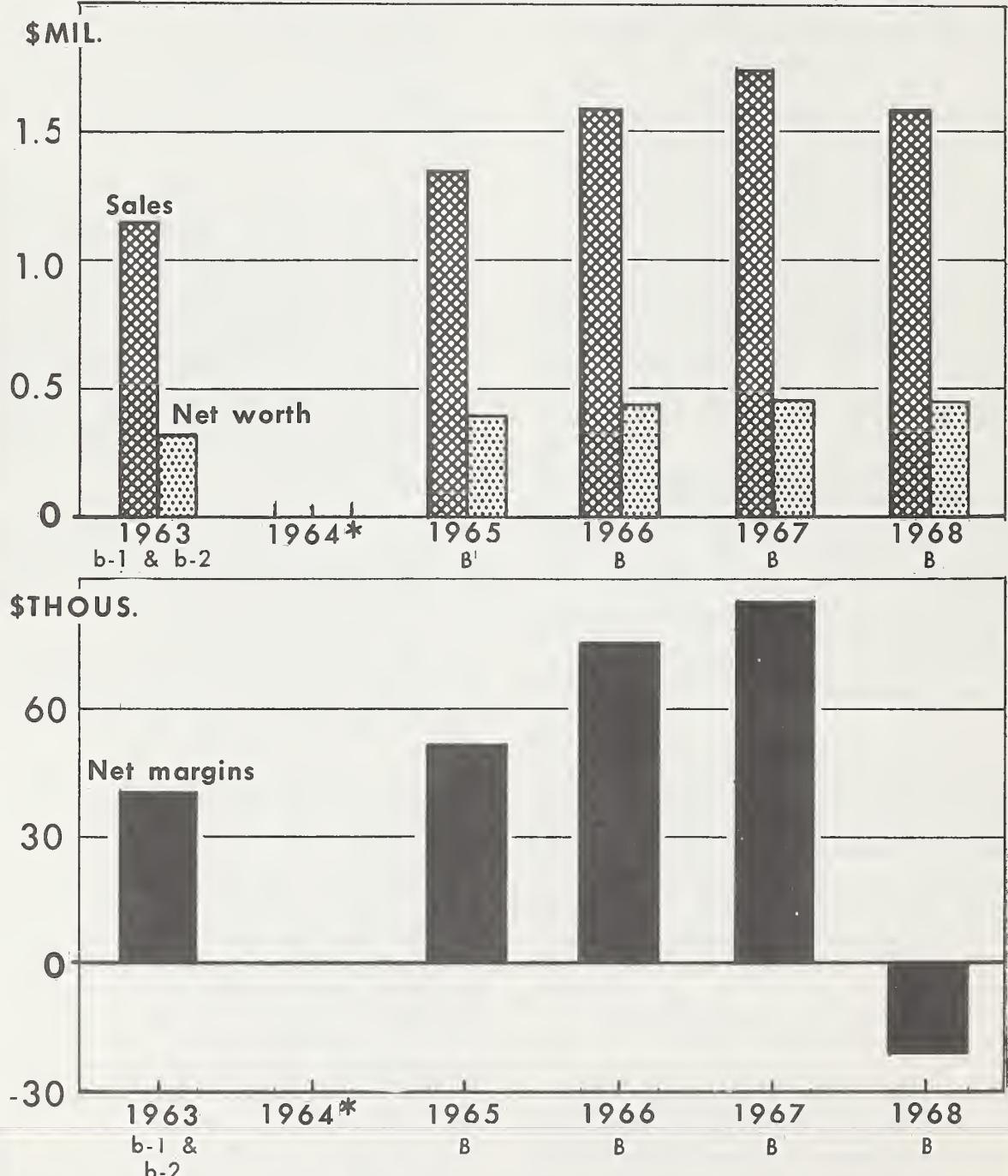
The basis for determining patronage refunds, whether on total business or sales of different supplies, also determined the final amounts to the two groups of members.

The ways that co-op B's loss operations in 1968 varied from those of the original cooperatives in 1963 also are shown in table 14.

ASSETS, LIABILITIES, AND NET WORTH INCREASE

Cooperative B experienced a steady rise in all major items of the balance sheet--current assets, fixed assets, liabilities, and net worth--in the first 3 years following its formation but declined some in 1968 (table 15). In 1968, assets were 47 percent larger than those of the original local associations, combined, in 1963. The most significant increases occurred in inventories and facilities. The cost of fixed assets increased \$233,136, and their net value increased \$139,276 from 1963 to 1968--due mainly to development of more complete service centers in two communities. Liquid nitrogen and LP gas facilities and more dry fertilizer equipment were added. Inventories increased \$127,832 during the period (table 16).

SALES, NET WORTH, AND NET MARGINS OF CO-OP B, 1965-68, AND TOTAL OF CO-OPS b-1 AND b-2, 1963



*DATE OF MERGER WAS NOV. 1, 1964. THUS NO FULL-YEAR DATA FOR 1964 OPERATIONS OF EITHER CO-OPS b-1 AND b-2 OR MERGED CO-OP B.

FIGURE 2

Table 12.--Operating statements of co-op B, 1965-68, and co-ops b-1 and b-2, separate and combined, 1963¹

Item	Co-op B for year ended Dec. 31--							
	1968		1967		1966		1965	
	Amount	Percent- age of sales	Amount	Percent- age of sales	Amount	Percent- age of sales	Amount	Percent- age of sales
	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent
Sales.....	1,578,173	100.0	1,742,924	100.0	1,589,892	100.0	1,352,538	100.0
Cost of sales.....	1,269,513	80.4	1,403,648	80.6	1,280,231	80.5	1,084,006	80.1
Gross margins.....	308,660	19.6	339,276	19.4	309,661	19.5	268,532	19.9
Service income.....	12,911	0.8	14,107	0.8	10,686	0.6	6,056	0.4
Gross income.....	321,571	20.4	353,383	20.2	320,347	20.1	274,588	20.3
Operating expenses...	392,465	24.9	340,819	19.5	311,183	19.5	287,922	21.3
Net operating margin.	-70,894	-4.5	12,564	0.7	9,164	0.6	-13,334	-1.0
Other revenue.....	80,915	5.1	99,326	5.7	86,966	5.5	84,887	6.3
Other expense.....	31,507	2.0	27,858	1.6	18,867	1.2	17,753	1.3
Total net margins...	-21,486	-1.4	84,032	4.8	77,263	4.9	53,800	4.0
	Total, b-1 & b-2, year ended Dec. 31, 1963		b-1, year ended Dec. 31, 1963		b-2, year ended Dec. 31, 1963			
	Amount	Percent- age of sales	Amount	Percent- age of sales	Amount	Percent- age of sales		
	Dollars	Percent	Dollars	Percent	Dollars	Percent		
Sales.....	1,160,024	100.0	768,692	100.0	391,332	100.0		
Cost of sales.....	935,604	80.6	606,526	78.9	329,078	84.1		
Gross margins.....	224,420	19.4	162,166	21.1	62,254	15.9		
Service income.....	6,022	0.5	6,022	0.8	--	--		
Gross income.....	230,442	19.9	168,188	21.9	62,254	15.9		
Operating expenses...	233,793	20.2	151,266	19.7	82,527	21.1		
Net operating margin.	-3,351	-0.3	16,922	2.2	-20,273	-5.2		
Other revenue.....	57,515	5.0	40,942	5.3	16,573	4.2		
Other expense.....	12,724	1.1	6,022	0.8	6,702	1.7		
Total net margins..	41,440	3.6	51,842	6.7	-10,402	-2.7		

¹ Date of merger was November 1, 1964. Operating statements of the original cooperatives for the full year in 1963 are used for comparisons.

Table 13.--Sales of selected items as a percentage of total, co-op B, 1965-68, and co-op b-1 and b-2, 1963¹

Item	Co-op B				Total of b-1 and b-2, 1963	Co-op b-1, 1963	Co-op b-2, 1963
	1968	1967	1966	1965			
<u>Percent</u>							
Petroleum, tires, and chemicals.	45	42	42	42	26	22	32
Feed and seed.....	30	21	23	20	24	29	15
Fertilizer.....	25	37	35	36	50	49	53
Total.....	100	100	100	100	100	100	100

¹ See table 10 for dates business years ended.

Table 14.--Extent that co-op B's operating margins and expenses in 1967 and 1968 varied from those of co-ops b-1 and b-2 in 1963¹

(Increase or decrease as a percentage of sales)

Item	Co-op B in 1967 compared with--		Co-op B in 1968 compared with--	
	Co-op b-1 in 1963	Co-op b-2 in 1963	Co-op b-1 in 1963	Co-op b-2 in 1963
	<u>Percent</u>			
Gross margins.....	-1.6	+3.6	-1.5	+3.7
Service income.....	0	+0.8	0	+0.8
Gross income.....	-1.6	+4.4	-1.5	+4.5
Operating expenses.....	-0.1	-1.5	+5.2	+3.8
Net operating margins.....	-1.5	+5.9	-6.7	+0.7
Other revenue.....	+0.4	+1.5	-0.2	+0.9
Other expense.....	+0.8	-0.1	+1.2	+0.3
Total net margins.....	-1.9	+7.5	-8.1	+1.3

¹ See table 10 for dates business years ended.

During the same period, liabilities increased about \$179,210, or 64 percent, and net worth became a third larger.

The surviving association still had the receivable problems of the original cooperatives, as indicated in table 16. Net accounts receivable of associations b-1 and b-2 combined in 1963 totaled \$167,780. Cooperative B reduced them in 1965 to \$117,558 but in 1968 the amount was up to \$180,434.

Association B experienced difficulty in collecting accounts in 1968. At the end of the year, only 48 percent were under 61 days in age, compared with 74 percent in 1967 and 67 percent in 1963 (table 17). The new manager who was employed in the fall of 1968 reported drastic steps were taken to place the accounts on a more current basis and to reduce the total outstanding.

Table 15.--Condensed balance sheets of co-op B, 1965-68, and co-ops b-1 and b-2, separate and totaled, 1963

Item	Co-op B, Dec. 31--				Total of b-1 and b-2, 1963 ¹	Co-op b-1, Dec. 31, 1963	Co-op b-2, Dec. 31, 1963
	1968	1967	1966	1965			
<u>Dollars</u>							
Current assets.....	455,552	490,088	426,254	340,935	343,387	211,746	131,641
Investments.....	157,693	140,286	122,059	108,318	131,462	92,535	38,927
Fixed assets (net).....	269,676	283,644	248,824	215,427	130,400	86,848	43,552
Other assets.....	23,967	31,514	24,906	15,613	12,320	4,325	7,995
Total assets.....	906,888	945,532	822,043	680,293	617,569	395,454	222,115
Current liabilities....	285,273	285,991	279,346	198,364	200,993	85,854	115,139
Noncurrent liabilities.	175,260	210,220	119,370	107,640	80,330	31,500	48,830
Total liabilities..	460,533	496,211	398,716	306,004	281,323	117,354	163,969
Net worth.....	446,355	449,321	423,327	374,289	336,246	278,100	58,146
Total liabilities and net worth....	906,888	945,532	822,043	680,293	617,569	395,454	222,115

¹ Operating and balance sheet figures for 1963 are used because the acquisition took place on Nov. 1, 1964. As a result, operating and balance sheet items for 1964 did not cover comparable periods.

Table 16.--Selected financial items of co-op B, 1966-68, and co-ops b-1 and b-2 combined, 1963¹

Item	Co-op B			Total of co-ops b-1 and b-2, 1963
	1968	1967	1966	
<u>Dollars</u>				
Cash.....	7,950	24,967	6,091	48,318
Net current accounts receivable.....	180,434	170,176	191,598	167,780
Inventories.....	264,001	291,257	239,265	136,169

¹ See table 10 for dates business years ended.

Table 17.--Trade accounts receivable, by age, as a percentage of total, co-op B, 1966-68, and co-ops b-1 and b-2 combined, 1963¹

Item	Co-op B			Total of co-ops b-1 and b-2, 1963
	1968	1967	1966	
<u>Percent</u>				
Less than 61 days.....	47.9	74.0	80.0	67.0
61 days to 1 year.....	46.3	20.0	16.0	27.0
Over 1 year.....	5.8	6.0	4.0	6.0
Total.....	100.0	100.0	100.0	100.0

¹ See table 10 for dates business years ended.

Merger C

Association c-1 was organized in 1941 and association c-2 in 1930. They merged on December 1, 1964.

Association c-1 was predominantly a petroleum cooperative which handled liquid petroleum fuels, lube oil and grease, and tires, batteries, and accessories. Gasoline and fuel oils made up about three-fourths of its annual sales.

Association c-2 handled mainly feed, fertilizer, seed, spray material, appliances, tires, batteries, and accessories. Feed accounted for 70 percent of total sales in 1963, and fertilizer accounted for over 20 percent.

Association c-1 had about 525 members before the consolidation; c-2 had about 1,300. The surviving cooperative had 1,200 members in 1966 and 916 in 1968.

The surviving cooperative retained the manager of original cooperative c-1. Even though a new association was formed (through consolidation), the name of the surviving cooperative is identical to that of original association c-2. The main office also remained in the same city as the main office of c-2.

Developments Leading To Unification

These cooperatives became interested in combining about 11 months before they took the step. Former board members of both agreed that association c-2 first initiated the merger idea and that it received encouragement from the State Farm Bureau and its affiliated regional cooperative. Reasons association c-2 gave for interest in merging were: (1) A decline in volume and margins, (2) an increase in operating expenses, (3) inability to adequately control credit, and (4) weak leadership by the manager, who was nearing retirement.

Members of cooperative c-1 saw several advantages in unification. Among them were: (1) Better use and development of personnel, (2) improved services to members and patrons, (3) improvement in gross margins, (4) better credit control, and (5) more efficient use of capital.

Both associations indicated that a merger of the two different types of cooperatives would result in more diversification, which would be beneficial to each.

Both associations rated the various factors considered in deciding to merge almost identically (app. table 1). Inability to control credit was "very important" for both; large indebtedness, decline in savings or increase in losses, overlapping trade area, inability to have adequate personnel strength, and reduced volume of business were considered of "medium importance."

Support and Opposition to Merger

The vote of directors and members in each association on the proposal was as follows:

	c-1 Number	c-2 Number
Directors voting for	7	9
Directors voting against	0	0
Members voting for	148	128
Members voting against	34	26

Managers of these two local cooperatives had little to do with the unification planning. Neither was present at the joint board meeting when unification possibilities were being discussed. Interviews with directors of these associations, however, revealed the position that each manager displayed regarding the consolidation.

The manager of c-1 was in favor of the plan but did not vigorously push it. He realized that if the manager of the surviving cooperative were to be chosen from the original associations, he would be the best prospect because of his younger age.

The manager of cooperative c-2 did not strongly oppose the consolidation plan nor was he strongly in favor of it.

The only opposition found in either cooperative was apprehension on the part of some employees. A few employees of c-1 thought that consolidation would drastically reduce or

even negate dividends paid by the surviving cooperative. Association c-1 had been paying 6-percent dividends on its stock, while association c-2 had been paying little or no dividends.

Operating and Financial Features of Original Associations

This section briefly describes trade areas, facilities, services, operating results, and financial aspects of the two merging cooperatives.

TRADE AREA, FACILITIES, AND SERVICES

Both local associations operated in the same county, an area of 1,500 square miles. Association c-1 operated four petroleum bulk plants, while association c-2 had five retail stores located throughout the county.

Cooperative c-1 had nine petroleum tank-truck salesmen operating from its bulk plants. Also, it delivered liquefied propane and operated a service station at one of its bulk plants. Each retail outlet of association c-2 had pickup and delivery services, custom feed grinding and mixing, and a fairly complete fertilizer service program.

TRENDS IN SALES AND NET MARGINS

Dollar volume of sales remained relatively stable in association c-1 for the 3 years prior to merger, while sales of cooperative c-2 declined slightly for each year (table 18).

Except for a slight increase for association c-2 in 1964, net margins declined in both original cooperatives for each of the 3 years before consolidation.

Association c-1 had higher net margins than cooperative c-2, primarily because c-1 had good gross margins on petroleum and c-2 had low margins on feed and fertilizer due to strong competitive pricing in its area.

Table 18.--Trends in sales and net margins of co-ops c-1 and c-2, 1962-64

Year ¹	Co-op c-1			Co-op c-2		
	Total sales	Net margins		Total sales	Net margins	
		Amount	Percentage of sales		Amount	Percentage of sales
	Dollars	Dollars	Percent	Dollars	Dollars	Percent
1962...	758,935	64,519	8.5	1,019,852	20,636	2.0
1963...	757,415	56,107	7.4	968,547	12,741	1.3
1964...	765,869	55,167	7.2	958,368	13,343	1.4

¹ Business years of both associations ended Dec. 31.

TRENDS IN RECEIVABLES, LIABILITIES, AND NET WORTH

Both cooperatives had extremely large amounts of accounts receivable prior to consolidation (table 19).

Over one-half of the total accounts for each association were 60 days or over in age.

Liabilities of association c-1 increased about \$10,000 from 1962 to 1964. In contrast, total liabilities of association c-2 decreased in each of the 3 years prior to unification. This reduction was due largely to a drop in noncurrent liabilities. Net worth of association c-1 increased, while that of c-2 declined during the same period.

Problems After Unification

Directors and managers reported encountering several economic problems soon after the associations merged. These problems were related to:

1. Bookkeeping changes.--Association C initiated an integrated bookkeeping system following the consolidation. Centralization of the accounting routine caused communication problems in the farm supply branches and the petroleum department.

2. Centralized pricing.--Before consolidation, each branch set its own prices for specific commodities. These prices often varied

Table 19.--Trends in three financial items of co-ops c-1 and c-2, 1962-64

Year ¹	Accounts receivable		Liabilities		Net worth	
	c-1	c-2	c-1	c-2	c-1	c-2
Dollars						
1962.....	206,237	164,387	165,429	155,505	327,199	316,221
1963.....	216,199	152,634	161,121	151,308	352,909	313,128
1964.....	207,172	153,082	174,932	132,905	363,460	307,087

See footnote, table 18.

widely, even for the same products. After the merger, however, all prices for the same commodities were uniform as determined by the central office. Some branch managers believed this gave them less flexibility in meeting competition.

3. Poor managerial delegation of responsibility.

4. Poor organizational structure, with lack of understanding among some employees of their duties or responsibilities.

5. Retention of some incompetent employees and poor employee supervision.

6. Less savings and growth than expected.-- One director reported that the unification resulted in a higher tax base and greater taxes than the separate co-ops had been paying.

Reported Advantages of Merging

Advantages that the manager and directors believed had resulted from the merger were:

1. Increased operating efficiency due to diversification.

2. Improved member interest.

3. Better use and development of personnel.

4. Improved services to members.

5. Centralized bookkeeping system.

Indications were that this association had not yet realized some advantages originally expected, but did realize some not anticipated. For example, both of the original cooperatives listed "inability to control credit" and "reduced volume of business" as important in their decision to unify. But improvements in these areas were not given as advantages by leaders at the time this study was made. On the other hand, neither original

cooperative considered "lack of member interest" as a factor in deciding to merge, but "improved member interest" turned out to be an important advantage seen.

Relative Success of Merger C

This merger of a large, predominantly feed cooperative with a smaller, predominantly petroleum cooperative had difficulties during its first 3 years, but after a change of management it operated quite successfully in the fourth year.

For the first year (1965), net margins were only 1.8 percent of sales, compared with 4.0 for the total of the original cooperatives in 1964. The next year margins were up to the 1964 level, but in 1967 a loss of 4.5 percent occurred. Sales were increased some but improvements in personnel use, services, and credit control were not up to premerger expectations. Most of the problems that led to the original merger had not been overcome and some had grown larger. Blame for less than expected results fell largely on the first manager of Association C. Some directors doubted that he could effectively direct the affairs of a larger, diversified business, but thought he should be given a chance because he favored the merger, was young, and had a better operating record than other candidates. Other directors, however, always thought a manager should have been chosen from the outside.

Directors approved \$63,000 worth of new facilities in the first 3 years and \$92,000 more in the fourth year. The problems of managing larger, more diversified businesses pose the question of how much should be invested in new facilities before a unified cooperative becomes firmly established on a successful basis.

Operating results and financial data for the surviving association (4 years after unification) are now compared with results and data for the original cooperatives.

**SALES INCREASE; GROSS MARGINS
DECREASE AS A PERCENTAGE OF
SALES**

Surviving cooperative C's sales volume increased about 17 percent in 4 years--as expected during merger planning. Sales were

\$2,025,706 in 1968, compared with a total of \$1,724,237 for the two original associations in 1964 (table 20 and fig. 3).

Gross margins of co-op C have been less each year, as a percentage of sales, than the total of the two original cooperatives in 1964.

Table 20.--Operating statements of co-op C, 1965-68, and co-ops c-1 and c-2, separate and combined, 1964¹

Item	Co-op C for year ended Nov. 30--							
	1968		1967		1966		1965	
	Amount	Percent- age of sales	Amount	Percent- age of sales	Amount	Percent- age of sales	Amount	Percent- age of sales
Sales.....	<u>Dollars</u>	<u>Percent</u>	<u>Dollars</u>	<u>Percent</u>	<u>Dollars</u>	<u>Percent</u>	<u>Dollars</u>	<u>Percent</u>
Sales.....	2,025,906	100.0	1,929,746	100.0	1,812,463	100.0	1,715,837	100.0
Cost of sales.....	1,536,035	75.8	1,632,830	84.6	1,421,555	78.4	1,324,650	77.2
Gross margin.....	489,871	24.2	296,916	15.4	2 390,908	21.6	2 391,187	22.8
Service income.....	77,374	3.8	69,975	3.6	73,159	4.0	69,540	4.0
Gross income.....	567,245	28.0	366,891	19.0	464,067	25.6	460,727	26.8
Operating expenses....	519,370	25.6	504,646	26.2	459,440	25.3	442,669	25.8
Net operating margin.	47,875	2.4	-137,755	-7.2	4,627	0.3	18,059	1.0
Other income.....	90,999	4.5	76,456	4.0	91,735	5.1	30,223	1.8
Other expenses.....	38,027	1.9	25,335	1.3	25,520	1.4	17,251	1.0
Total net margins..	100,847	5.0	-86,633	-4.5	70,842	4.0	31,030	1.8
	Total of c-1 & c-2, year ended Nov. 30, 1964			c-1, year ended Nov. 30, 1964		c-2, year ended Nov. 30, 1964		
	Amount	Percent- age of sales	Amount	Percent- age of sales	Amount	Percent- age of sales	Amount	Percent- age of sales
Sales.....	<u>Dollars</u>	<u>Percent</u>	<u>Dollars</u>	<u>Percent</u>	<u>Dollars</u>	<u>Percent</u>	<u>Dollars</u>	<u>Percent</u>
Sales.....	1,724,237	100.0	765,869	100.0	958,368	100.0		
Cost of sales.....	1,253,226	72.7	489,953	64.0	763,273	79.6		
Gross margin.....	471,011	27.3	275,916	36.0	195,095	20.4		
Service income.....	11,123	0.6	11,124	1.5	(³)	(³)		
Gross income.....	482,134	27.9	287,040	37.5	195,095	20.4		
Operating expenses...	424,540	24.5	238,057	31.1	186,483	19.5		
Net operating margin.	54,595	3.4	48,983	6.4	8,612	0.9		
Other income.....	21,065	1.2	12,840	1.7	8,225	0.9		
Other expenses.....	10,149	0.6	6,656	0.9	3,493	0.4		
Total net margins..	68,510	4.0	55,167	7.2	13,344	1.4		

¹ Date of merger was Dec. 1, 1964.

² Gross margins of petroleum department were 33.1 percent in 1965, 28.5 in 1966, 27.4 in 1967, and 30.0 percent in 1968. Those of general supplies (warehouse) department were 13.3 percent in 1965, 16.5 in 1966, 6.7 percent in 1967, and 20.2 percent in 1968.

³ Included in gross margins.

**SALES, NET WORTH, AND NET MARGINS OF CO-OP C,
1965-68, AND TOTAL OF CO-OPS c-1 AND c-2, 1964**

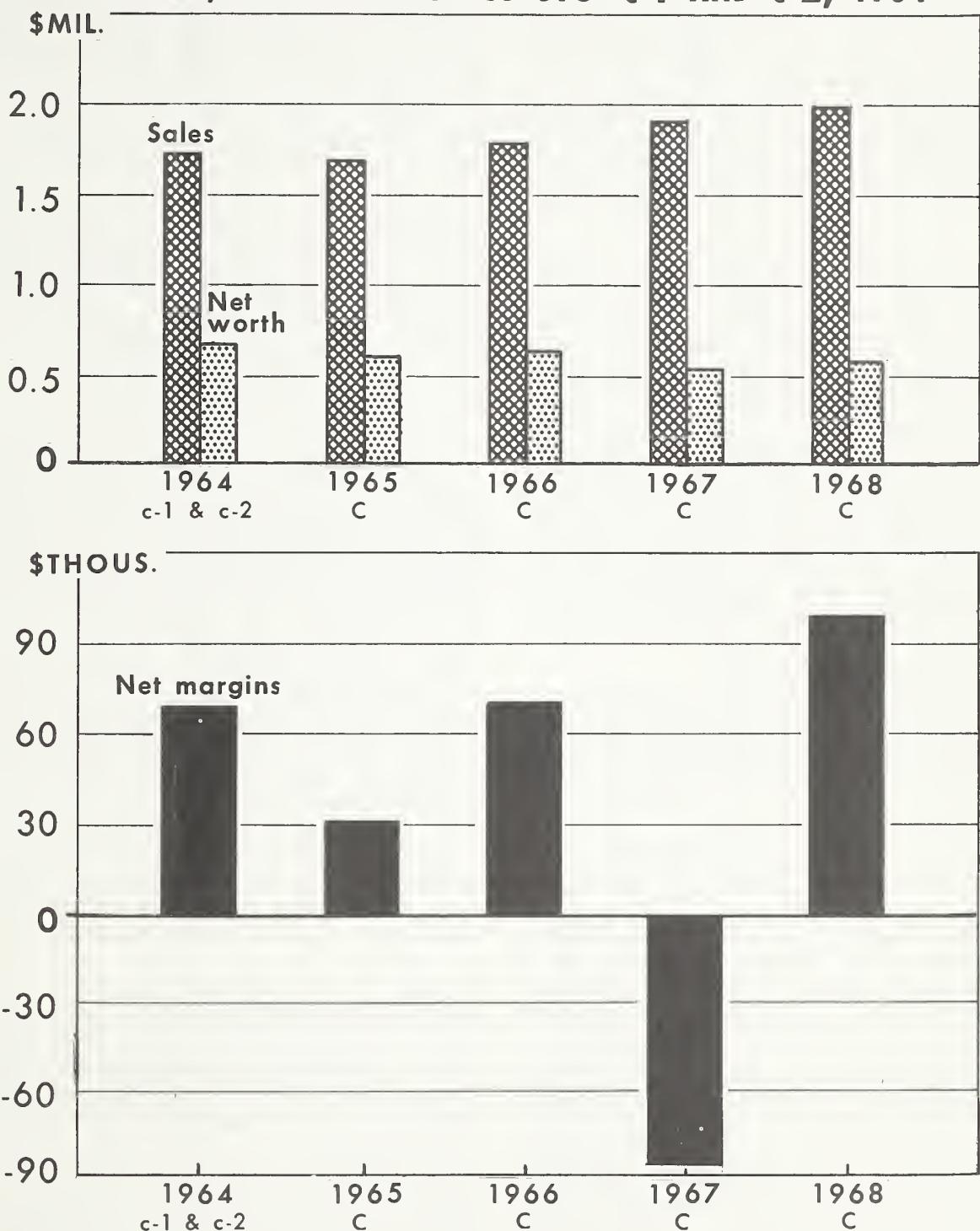


FIGURE 3

They were 24.2 percent in 1968, compared with 27.3 percent in 1964. Co-op C's gross margins dropped to 15.4 percent in 1967, due mainly to two factors: (1) Lack of control of business operations, especially in the warehouse department, and (2) a change in accounting to list service revenue separately in the merged association, whereas it had been included with gross margins of association c-2.

Practically all of the decline in 1967 occurred in the warehouse division--in fertilizer, seed, farm supplies, coal, and feed. Miscellaneous petroleum resale items also showed a gross loss. The firm making the annual audit recommended that internal control be strengthened, a general review be made of personnel policies and benefits, purchases of supplies and parts be requisitioned on a purchase order and approved by management or a person in charge, cash variances at the feed warehouse be recorded and posted daily, and the building of a corral for outdoor equipment be considered. Also, the auditor set up a system of branch accounting at the request of the manager.

Early in fiscal 1968, the board hired a new manager and gross margins for the year were brought back to a satisfactory level.

EXPENSES, OTHER INCOME, AND NET MARGINS UP AS A PERCENTAGE OF SALES

Total operating expenses of the surviving association have increased steadily and much more than expected in premerger planning, but as a percentage of sales they have advanced only 1.1 percent. Expenses in 1968 reached \$519,370, or 25.6 percent of sales, whereas those of c-1 and c-2 in 1964 totaled \$424,540, or 24.5 percent of sales (table 20.)

"Other income" of association C has been much larger than in the two original co-ops, due to patronage refunds received from its regional cooperative. This income has been offset partially, however, by increased interest and "other expenses."

After taking into account all phases of operations, total net margins as a percentage of sales for the unified association the first year were much less than the total for the two original co-ops in 1964; they were about the same in 1966; a heavy loss occurred in 1967; and then they reached a record high of \$100,847, or 5.0 percent of sales, in 1968.

After the new manager was employed on November 1, 1967, all policies and procedures were revised, all facilities were improved, petroleum operations were expanded, and \$151,478 worth of additions were made to fixed assets and \$32,623 were closed out in 1968. And in the spring of 1969, electronic centralized accounting was started.

The extent that co-op C's operating margins and expenses on its total business in 1968 varied from those of the two original co-ops in 1964 is shown in table 21. Co-op C's net margins were 2.2 percent of sales less than those of c-1, the petroleum association, in 1964--due mainly to almost 12 percent lower gross margins. Also, expenses were less and other income was larger. Therefore, if the lower gross margins were due to lower billing prices and if one rate of refund was paid on total sales rather than on departmental sales, members of c-1 fared better in the merged organization.

In the petroleum department of co-op C, 1968 net margins as a percentage of sales were 3.3 percent less than those of co-op c-1 (the petroleum co-op) in 1964 (table 21).

Co-op C's net margins were 3.6 percent larger in 1968 than those of c-2 (the warehouse co-op) in 1964--due mainly to much larger "other income." Gross margins plus service income were much more but were offset by larger expenses in relation to sales.

The warehouse department of co-op C showed 4.3 percent larger net margins in 1968 than c-2 realized in 1964. Although gross margins, other income, and expenses all were higher last year, the actual effect or benefits to members of the original co-

Table 21.--Extent that co-op C's operating margins and expenses in 1968 varied from those of co-ops c-1 and c-2 in 1964¹

(Increase or decrease as percentage of sales)

Item	Total business of C, 1968, compared with c-1, 1964	Petrol dept. of C, 1968, compared with c-1, 1964 ²	Total business of C, 1968 compared with c-2, 1964	Warehouse dept. of C, 1968, compared with c-2, 1964 ²
Percent				
Gross margins.....	-11.8	-5.9	³ +3.8	-0.2
Service income.....	+ 2.3	-0.8	³ +3.8	+5.9
Gross income.....	- 9.5	-6.7	+7.6	+5.7
Operating expenses.....	- 5.5	-1.5	+6.1	+3.5
Net operating margins.....	- 4.0	-5.2	+1.5	+2.2
Other income.....	+ 2.8	+2.7	+3.6	+3.6
Other expenses.....	+ 1.0	+0.8	+1.5	+1.5
Total net margins.....	- 2.2	-3.3	+3.6	+4.3

¹ See table 20 for dates business years ended.

² Co-op c-1 handled mainly petroleum products and automotive supplies; c-2 handled mainly feed, seed, fertilizer, and general supplies.

³ Service income was included with gross margins in 1964 operations.

operatives also would depend on the basis used in declaring patronage refunds--that is, whether they are declared on total sales or on major departments. In 1966, for example, a refund of 5 percent was declared on petroleum and 2.3 percent was declared on feed and supply purchases by members after providing for dividends on preferred stock. In 1968, a refund of 4.3 percent was declared on total sales to members.

ASSETS AND LIABILITIES INCREASE SHARPLY; NET WORTH DECLINES

Assets of co-op C in 1968 were more than \$202,000 above those of the two original co-ops in 1964, due in part to \$50,000 larger

inventories and an increase in net fixed assets of \$155,435 for two new fertilizer blending plants, another anhydrous ammonia installation, new LP gas bulk plants and trucks, and remodeling of branch facilities (table 22).

Accounts and notes receivable were reduced some but were still very large--\$348,687 (net), equal to almost 60 days of sales (table 23). More of them, however, were placed on a more current basis (table 24.).

Liabilities increased greatly--by \$259,535--as funds were borrowed for new facilities and larger inventories and to offset the operating loss in 1967. Net worth of the association at the end of 1968 was \$57,200 below (about 9 percent) the total for the two original co-ops at the time of merging.

Table 22.—Condensed balance sheets of co-op C, 1965–68, and co-ops c-1 and c-2, separate and totaled, 1964¹

Item	Co-op C, November 30 --				Total of c-1 and c-2, Nov. 30, 1964	Co-op c-1, Nov. 30, 1964	Co-op c-2, Nov. 30, 1964
	1968	1967	1966	1965			
<u>Dollars</u>							
Current assets.....	553,140	568,519	568,559	555,421	530,449	276,648	253,801
Investments.....	194,003	175,756	182,262	171,799	169,795	56,441	113,354
Fixed assets (net).....	433,575	341,458	350,154	312,515	278,140	205,303	72,837
Total assets.....	1,180,718	1,085,733	1,100,975	1,039,735	978,384	538,392	439,992
Current liabilities....	270,536	323,888	211,028	315,984	294,938	164,717	130,221
Noncurrent liabilities	296,836	208,170	247,260	120,850	12,899	10,215	2,684
Total liabilities....	567,372	532,058	458,288	436,834	307,837	174,932	132,905
Net worth.....	613,346	553,675	642,687	602,901	670,547	363,460	307,087
Total liabilities and net worth.....	1,180,718	1,085,733	1,100,975	1,039,735	978,384	538,392	439,992

¹ Date of merger was Dec. 1, 1964.

Table 23.—Selected financial items of co-op C, 1966–68, and co-ops c-1 and c-2 combined, 1964¹

Item	Co-op C			Total of co-ops c-1 and c-2 1964
	1968	1967	1966	
<u>Dollars</u>				
Cash.....	15,218	50,951	21,294	30,342
Accounts and notes receivable (net)	348,687	344,915	354,755	360,209
Inventories.....	179,469	161,263	182,993	129,194

¹ See table 20 for dates business years ended.

Table 24.—Accounts receivable, by age, as a percentage of total, co-op C, 1966–68, and co-ops c-1 and c-2 combined, 1964¹

Age	Co-op C			Total of co-ops c-1 and c-2 1964
	1968	1967	1966	
<u>Percent</u>				
Less than 6 mos. ² .	75	72	69	65
6 mos. to 1 year..	15	19	17	22
Over 1 year.....	10	9	14	13
Total.....	100	100	100	100

¹ See table 20 for dates business years ended.

² 30 percent were under 30 days and 12 percent were 30 days old.

Merger D

Association d-1, organized in 1919, and association d-2, organized in 1933, merged on January 1, 1964.

These two cooperatives presented a sharp contrast in types of business and service offered to their patrons. Association d-1 was an agriculturally oriented association, with

about one-third of its sales in feed, seed, and fertilizer, one-third in petroleum, and one-third in machinery and hardware. Cooperative d-2 was primarily an urban-oriented association which sold petroleum products--fuel oil, gasoline, and LP gas--and coal to city dwellers. Both had their main offices in the same city.

Association d-1 had about 2,300 members and association d-2 had about 2,000 before they merged. The surviving association had about 4,300 members in 1965 and 4,200 in 1968.

Association D retained the manager and the main office location of original cooperative d-1. The name of the surviving cooperative is somewhat different from that of either of the original cooperatives.

Developments Leading to Unification

The original cooperatives became interested in merging about 1 year before they unified. The primary reasons why they became interested were:

1. Duplication of facilities.--Cooperative d-1 was a diversified business with several product lines; petroleum products accounted for about one-third of its business. Many of the petroleum products were sold to city residents even though the cooperative's other product lines were agriculturally oriented. Association d-2 was strictly a petroleum cooperative that sold fuel oil, coal, gasoline, and LP gas to urban people. As a result, both associations often served the same area. As one director said: "Our delivery trucks often followed the other cooperative's trucks down the same street. We would stop at one house and they would stop at the next."

2. Seasonality.--Cooperative d-2, being an urban petroleum cooperative, was very busy delivering fuel oil, coal, and gasoline to patrons in the winter; but during the summer, trucks and personnel were underutilized. Directors felt a merger with association d-1 would give them more product lines and therefore more flexibility in labor and facility utilization.

3. Lack of growth.--Neither association had an outstanding growth record and both thought unification would increase volume and membership. Such increases would result from

greater purchasing power, lessening of competition, cost reduction, efficient labor utilization, and elimination of duplicate facilities. Cooperative d-1 believed that its poor growth record was due to slow inventory turnover in machinery, feed, and hardware. It wanted to more fully develop the petroleum department by merging with d-2, which had higher net margins. Combined facilities of the two original cooperatives could serve both city and rural people.

4. Technology.--Association d-2 was losing much of its coal and fuel oil business because of increased use of natural gas. To survive, it was essential for the co-op to go into other product lines to maintain growth and to spread overhead costs.

Directors and managers of both cooperatives rated duplicate facilities and services as a very important factor in deciding to merge (app. table 1). Reduced volume of business, overlapping trade area, and large receivables were other frequently mentioned factors.

Support and Opposition to Merger

The vote of directors and members of each association on the merger proposition was as follows:

	d-1 Number	d-2 Number
Directors voting for	5	7
Directors voting against	0	0
Members voting for	284	630
Members voting against	6	39

Managers of both associations strongly supported the merger. Each realized the potential benefits unification could bring to members and patrons in the area.

The two cooperatives experienced some opposition from members to the proposed merger because of farm/city conflicts. Some

urban members of d-2 did not want to become involved with farm problems of d-1, and some farmers in d-1 were apprehensive about dealing with city people in d-2.

Operating and Financial Features of Original Associations

This section briefly describes trade areas, facilities, services, operating results, and financial aspects of the two merging cooperatives.

TRADE AREA, FACILITIES, AND SERVICES

Association d-1 operated within a trade area of approximately 300 square miles; association d-2 operated principally within the city limits. Boundaries between the trade area of the cooperatives and those of nearby competitors were reasonably well-defined. Neither original association maintained complete branches, although association d-2 operated two service stations within the city.

Association d-1 operated a bulk feed plant and a petroleum bulk plant with associated delivery services. Also available were feed grinding and mixing facilities and a tractor repair service. The machinery department carried a complete line of farm equipment and repair parts of a major company. Coop-

erative d-2 offered all services connected with purchasing and delivery of fuel oil, gasoline, coal, and LP gas.

TRENDS IN SALES AND NET MARGINS

Sales of association d-1 were about double those of association d-2. Sales gradually declined in both associations in the 2 years prior to merging (table 25).

Net margins of cooperative d-1 increased from 0.2 percent of sales in 1962 to 1.1 percent of sales in 1963. In contrast, association d-2 suffered a decline in net margins from 3.7 percent of sales in 1962 to 0.4 percent in 1963.

TRENDS IN ACCOUNTS RECEIVABLE, LIABILITIES, AND NET WORTH

Neither original association had experienced major difficulty in controlling credit. In both, accounts receivable were rather high for the volume of business done; however, only 7 percent of total accounts receivable for each local were over 1 year old.

Liabilities of each association increased from 1962 to 1963.

Net worth of association d-1 increased only slightly during the period and that of cooperative d-2 declined, as shown in table 26.

Table 25.--Trends in sales and net margins of co-ops d-1 and d-2, 1962-63

Year ¹	Co-op d-1			Co-op d-2		
	Total sales	Net margins		Total sales	Net margins	
		Amount	Percentage of sales		Amount	Percentage of sales
	Dollars	Dollars	Percent	Dollars	Dollars	Percent
1962.....	661,591	1,459	0.2	321,383	11,727	3.7
1963.....	635,998	6,719	1.1	302,755	1,093	0.4

¹ Business year of d-1 ended Dec. 31 and of d-2 Sept. 30.

Table 26.--Trends in three financial items of co-ops d-1 and d-2, 1962-63

Year ¹	Accounts receivable		Liabilities		Net worth	
	d-1	d-2	d-1	d-2	d-1	d-2
<u>Dollars</u>						
1962.....	42,365	16,406	142,414	14,715	285,720	181,109
1963.....	44,416	14,208	147,630	20,138	287,826	172,110

¹ See footnote 1, table 25.

Problems After Unification

The main problems soon after unification, as reported by representatives of the association, were sharp losses in the machinery and hardware departments. The spokesmen thought these were due to increased emphasis on petroleum and feed and to incompetent employees.

As to noneconomic problems, some leaders seemed to resent the actions of the board president of cooperative d-1 in advocating the proposed merger. They thought he wished to become president of the larger surviving association to gain more power and status in the community.

Some reports indicated that a few board members of the original cooperatives were unhappy because they were not elected to the board of the surviving cooperative, and attempted to spread ill-feeling among its members.

Some friction developed between the employees of the original farmer and urban cooperatives. Each group tended to blame the other for poor results in some departments, and questioned whether the cooperatives should have merged.

Reported Advantages of Merging

Directors and the manager listed the following advantages of the merger:

1. Elimination of duplicate facilities.
2. New, more efficient, and improved services.
3. More membership confidence in operations.
4. Reduction in per unit costs.
5. Increased purchasing power.
6. More efficient labor utilization.

Some advantages anticipated by both of the original cooperatives, however, had not yet been realized. For example, officials of both original cooperatives rated "reduced volume" and "inability to control credit" important in their decision to unify, but at the time of the study neither was listed by leaders as a realized advantage.

Relative Success of Merger D

This merger of a large farm supply cooperative and a smaller urban petroleum cooperative has not been a success. Although sales volume by 1968 had reached the level attained by the two original cooperatives in 1963--the year prior to merger--a loss occurred in 1968 as well as in 1967 and 1966.

The first manager of co-op D eliminated some duplicate facilities but experienced managerial problems in 1966 and resigned. The new manager of the unified cooperative soon developed plans to build new offices and facilities and to move the feed and farm machinery departments to the outskirts of the city, where greater efficiencies could be realized. Two new buildings were built at a cost of \$309,000, which necessitated substantial borrowing even though property within the city was sold to help finance expansion costs. Management thus faces a formidable task in getting this merger on a successful basis.

Members and directors seemed to have a great deal of confidence in their new manager at the time the cooperative was visited in 1967, and foresaw improvement in cooperative operations in the area as a result of the merger. Most placed the blame for past operational deficiencies on the first manager of the surviving association. Although they initially approved the selection of this former manager, they later thought it would have been better to select a manager outside the surviving association.

Association D was the only one of the four cooperatives studied whose directors and managers anticipated further mergers. They were interested in a cooperative in a nearby predominantly rural area which had a successful feed department. They believed it would greatly benefit co-op D's own feed services and that D's improved petroleum department would benefit members of the neighboring association.

Operating results and financial data for the surviving association (5 years after unification) are compared in the following sections with those for the original cooperatives.

SALES AND GROSS MARGINS REMAIN STEADY

Sales of the surviving association during the first 4 years were below those of the two original associations, but in 1968 they came back to the premerger level of about \$940,000 (table 27 and fig. 4). Product mix showed an increase in hardware and farm machinery and a decrease in the proportion of petroleum and feed business for 1964-68 (table 28).

In 1964, 1965, and 1967, the surviving association realized higher gross margins per dollar of sales than those of the original associations, combined, in 1963. In 1968, gross margins for D were \$205,523 (21.9 percent of sales), compared with \$212,000 (22.5 percent) for the total of the two original associations in 1963 (table 27).

OPERATING EXPENSES AND OTHER INCOME INCREASE, NET MARGINS DECREASE

Total operating expenses of the surviving association remained relatively stable in the first 2 years of operation, both in absolute amount and as a percentage of sales, but thereafter increased greatly, especially in relation to sales (table 29). They went from about 22 percent of sales in 1964 and 1965 to about 25 percent in 1966, 29 percent in 1967, and 27 percent in 1968. This jump was due primarily to an increase in merchandising--advertising and labor--expense.

Other income, such as patronage refunds from regional co-ops, increased notably in 1967 and 1968 and a gain on the sale of fixed assets raised such income to 5.4 percent of sales in 1968, compared to 1.4 percent for the original co-ops in 1963.

**SALES, NET WORTH, AND NET MARGINS OF CO-OP D,
1964-68, AND TOTAL OF CO-OPS d-1 AND d-2, 1963**

\$ MIL.

1.5

1.0

0.5

0

Sales

Net
worth

1963
d-1 &
d-2

1964
D

1965
D

1966
D

1967
D

1968
D

\$ THOUS.

30

Net margins

10

0

-30

1963
d-1 &
d-2

1964
D

1965
D

1966
D

1967
D

1968
D

FIGURE 4

Table 27.--Operating statements of co-op D, 1964 and 1966-68, and co-ops d-1 and d-2, separate and combined, 1963¹

Item	Co-op D for years ended Dec. 31--							
	1968		1967		1966		1964	
	Amount	Percentage of sales	Amount	Percentage of sales	Amount	Percentage of sales	Amount	Percentage of sales
Sales.....	<u>Dollars</u>	<u>Percent</u>	<u>Dollars</u>	<u>Percent</u>	<u>Dollars</u>	<u>Percent</u>	<u>Dollars</u>	<u>Percent</u>
Sales.....	937,790	100.0	828,617	100.0	886,726	100.0	845,588	100.0
Cost of sales.....	732,267	78.1	628,568	75.9	698,686	78.8	644,106	76.2
Gross margin.....	205,523	21.9	200,049	24.1	188,040	21.2	201,482	23.8
Operating expenses...	253,899	27.1	238,921	28.8	219,635	24.8	190,408	22.5
Net operating margins	-48,376	-5.2	-38,872	-4.7	-31,595	-3.6	11,074	1.3
Other revenue.....	50,715	5.4	20,478	2.5	16,847	1.9	7,266	0.9
Other expenses.....	14,732	1.5	11,019	1.4	13,736	1.5	11,937	1.4
Total net margins....	-12,393	-1.3	-29,413	-3.6	-28,484	-3.2	6,403	0.8
	Total of d-1 and d-2, 1963		d-1, year ended Dec. 31, 1963		d-2, year ended Sept. 30, 1963			
	Amount	Percentage of sales	Amount	Percentage of sales	Amount	Percentage of sales		
	<u>Dollars</u>	<u>Percent</u>	<u>Dollars</u>	<u>Percent</u>	<u>Dollars</u>	<u>Percent</u>		
Sales.....	938,753	100.0	635,998	100.0	302,755	100.0		
Cost of sales.....	721,158	77.5	505,796	77.4	221,362	73.1		
Gross margin.....	211,595	22.5	130,202	20.5	81,393	26.9		
Operating expenses...	208,318	22.2	126,061	19.8	82,257	27.2		
Net operating margins	3,277	0.3	4,141	0.7	-864	-0.3		
Other revenue.....	13,526	1.4	9,400	1.5	4,126	1.4		
Other expenses.....	8,991	0.9	6,822	1.1	2,169	0.7		
Total net margins..	7,812	0.8	6,719	1.1	1,093	0.4		

¹ Date of merger was Jan. 1, 1964. In 1965, sales were \$878,922 and net margins totaled \$13,275, or 1.5 percent of sales.

The increase in operating expenses from 1966 to 1968 resulted in losses of 1.3 to 3.6 percent of sales for cooperative D. This was in contrast to net margins of \$6,000 (0.8 percent) and \$13,000 (1.5 percent) for 1964 and 1965, respectively. Combined net margins of the two original associations totaled \$7,182, or 0.8 percent, in 1963.

As indicated in table 30, 1968 operating results of association D were poorer than those of original co-op d-1 in 1963 because of higher expenses as a percentage of sales; and they were less favorable than those of co-op d-2 in 1963 mainly because of much lower gross margins as a percentage of sales, even though D's other income was much larger in both instances.

Type	Co-op D					Total of d-1 and d-2, 1963	Co-op d-1, 1963	Co-op d-2, 1963
	1968	1967	1966	1965	1964			
<u>Percent</u>								
Merchandising....	18.6	19.4	16.4	14.5	14.9	14.8	13.3	17.9
Administrative....	4.3	4.8	4.5	3.9	4.1	4.1	3.2	5.9
General.....	4.2	4.6	3.9	3.5	3.6	3.3	3.3	3.4
Total.....	27.1	28.8	24.8	21.9	22.6	22.2	19.8	27.2

¹ See table 27 for dates business years ended.

Table 28.--Sales of selected items as a percentage of total, co-op D, 1964-68, and co-ops d-1 and d-2, 1963¹

Item	Co-op D					Total of d-1 and d-2, 1963	Co-op d-1, 1963	Co-op d-2, 1963
	1968	1967	1966	1965	1964			
<u>Percent</u>								
Petroleum.....	40	46	45	49	50	47	21	100
Feed.....	7	13	16	16	17	19	29	0
Hardware.....	23	16	12	11	12	12	18	0
Farm machinery....	30	25	27	24	21	22	32	0
Total.....	100	100	100	100	100	100	100	100

¹ See table 27 for dates business years ended.

ASSETS AND LIABILITIES INCREASE; NET WORTH DROPS

Assets of the unified association at the end of 1968 were about \$45,000 larger than those of the two original cooperatives just before the merger, for a 7-percent rise (table 31). Current assets and investments (mainly in regional cooperatives) showed substantial increases, but net fixed assets declined from \$170,575 in 1963 to \$94,624 in 1968.

In 1967 and 1968, co-op D built two buildings at a new location outside the city at a cost of \$309,000. The downtown property was sold for \$104,000 because additional funds were required for equipment and inventory. At the beginning of 1968, the cost value of land, buildings, equipment, and trucks was \$384,708, and the net book value was \$143,855. At the end of 1968, their cost value was \$234,205 and their net value was \$94,404. Early in 1969, co-op D also planned to build a service station at its new location.

Table 30.--Extent that co-op D's operating margins and expenses in 1968 varied from those of co-ops d-1 and d-2 in 1963¹

(Increase or decrease as a percentage of sales)

Item	Co-op D in 1968 compared with--	
	Co-op d-1 in 1963	Co-op d-2 in 1963
-----Percent-----		
Gross margins.....	+1.4	-5.0
Operating expenses.....	+7.3	-0.1
Net operating margins..	-5.9	-4.9
Other revenue.....	+3.9	+4.0
Other expense.....	+0.4	+0.8
Total net margins..	-2.4	-1.7

¹ See table 27 for dates business years ended.

Net accounts receivable at the end of 1968 were \$64,210--a little higher than the combined accounts of the two original co-ops in 1963 (table 32). Average monthend balances were \$80,696 last year. Sixty-six percent of

the sales were charged and an average of 20.4 days' sales were tied up in accounts receivable at the close of 1968.

About 59 percent of the accounts receivable of cooperative D were under 60 days old in 1968, compared with 62 percent under 90 days old in the two original associations in 1963 (table 33). And only 2 percent of co-op D's accounts were over 1 year old in 1968, compared with 7 percent for the two associations at the time of merger. Inventories were much higher in 1968 than in earlier years of D's operations.

Current and fixed liabilities went up sharply in 1967--by about \$285,000--to finance machinery and the building program, but early in 1968 some of the old facilities were sold and funds were used to reduce short-term loans.

Net worth in 1968 was \$114,854, or a fourth less than the total for the two original co-ops in 1963. Operating losses and the redemption of members' capital equities accounted for the drop.

Table 31.--Condensed balance sheets of co-op D, 1964-68, and co-ops d-1 and d-2, separate and totaled, 1963¹

Item	Co-op D, Dec. 31--					Total of d-1 and d-2, 1963	Co-op d-1, Dec. 31, 1963	Co-op d-2, Dec. 31, 1963
	1968	1967	1966	1965	1964			
-----Dollars-----								
Current assets.....	371,808	304,494	317,258	321,673	313,506	311,040	265,143	45,897
Investments.....	198,277	136,051	132,470	129,768	129,779	125,114	52,419	72,695
Fixed assets (net).....	94,624	260,143	151,622	150,709	157,544	170,575	117,894	52,681
Other assets.....	8,253	9,524	2,487	2,918	9,292	20,975	0	20,975
Total assets.....	672,962	710,212	603,837	605,068	610,121	627,704	435,456	192,248
Current liabilities.....	215,254	231,824	58,566	95,999	99,358	114,078	93,940	20,138
Noncurrent liabilities...	115,626	121,601	156,927	88,420	94,692	53,690	53,690	0
Total liabilities.....	330,880	353,425	215,493	184,419	194,050	167,768	147,630	20,138
Net worth.....	342,082	356,787	388,344	420,649	416,071	459,936	287,826	172,110
Total liabilities and net worth.....	672,962	710,212	603,837	605,068	610,121	627,704	435,456	192,248

¹ Date of merger was Jan. 1, 1964.

Table 32.--Selected financial items of co-op D, 1965-68, and co-ops d-1 and d-2 combined, 1963¹

Item	Co-op D				Total of co-ops d-1 and d-2, 1963
	1968	1967	1966	1965	
<u>Dollars</u>					
Cash.....	9,473	1,445	11,450	8,746	(²)
Account receivable (net).....	64,210	66,907	66,754	77,549	² 57,000
Inventories.....	295,097	232,685	232,398	230,989	² 218,030

¹ See table 27 for dates business years ended.

² Cash and inventories totaled 218,030.

Table 33.--Accounts receivable, by age, as a percentage of total, co-op D, 1966-68, and co-ops d-1 and d-2 combined, 1963¹

Item	Co-op D			Total of co-ops d-1 and d-2, 1963
	1968	1967	1966	
<u>Percent</u>				
Less than 60 days....	58.7	59.2	60.6	--
Less than 90 days....	--	--	--	62
60 days to 1 year....	39.4	36.6	33.8	--
90 days to 1 year....	--	--	--	31
Over 1 year.....	1.9	4.2	5.6	7
Total	100.0	100.0	100.0	100

¹ See table 27 for dates business years ended.

Conclusions

Merging of cooperatives often is a complex and sizable undertaking. Cooperatives are owned by a large number of members and no two associations or mergers are alike. Problems that arise in bringing about a merger may be both economic and noneconomic. Usually the boards of directors and managers have not had any experience with mergers and may find it difficult to know how to pro-

ceed. They usually find it difficult to forecast or estimate benefits that may be expected.

Often, new problems may be faced by the unified or surviving cooperatives. These may pertain to employees, management, directors, fixed assets, control of inventories and expenses, member relations, services, or other areas.

Officials of all associations in this study indicated that considerable time is required to achieve full potentials of a merger. They believed that the full effects or benefits probably would not be realized for 5 or more years after the merger took place.

Based on the record of the four mergers of relatively small-scale supply cooperatives in the study, the following tentative conclusions may be drawn:

1. Mergers are not the answer to all problems of local supply cooperatives. Merging does not automatically guarantee improvement. It may even expose directors and management to a new group of problems.

2. The apparent degree of success of a merger may be influenced by the particular time a study of it is made. The last year of operation may have been one of low net margins or loss following several good years, or one with record net margins following a very poor year.

Also, the status of a merged cooperative at a given time may be affected greatly by other factors, such as adding new facilities or relocating headquarters. The same effects might have occurred if one of the original cooperatives had remained separate and made such major changes.

3. Each merger had elements of a larger, stronger cooperative saving a smaller, weaker cooperative. None of the merged associations seemed to have a clear growth strategy. Under such conditions merger may offer limited opportunities for marked improvements in overall operations, except perhaps improved services.

4. Merged supply cooperatives are likely to experience reduced net margins the first 1 or 2 years because of one-time postmerger and other adjustment costs. While benefits to members of the former weaker cooperative may be improved markedly, this is usually at the expense of reducing gains for members of the former stronger cooperative for a

period. Operations and accounting records, therefore, should be departmentalized and patronage refunds distributed on the basis of major types of supplies to minimize variations in net margins of branch operations.

5. Unified cooperatives should exercise caution in adjusting facilities to needs and not embark upon too ambitious an expansion program or start such a program before the merger is firmly established on a sound basis.

6. Directors of unified surviving cooperatives should endeavor to employ the best manager available for the position. Sometimes a manager from the outside may be advisable if difficulties are to be avoided and significant improvements are to be made. A manager who is successful in a certain type and size of cooperative is not always able to successfully manage a larger, more diversified cooperative.

7. Successful mergers require strong director support and member understanding because some members may fail to support the merger enthusiastically, especially if changes are not in accordance with individual goals. Although differences in structure, policies, operations, and financial aspects may be encountered, and although noneconomic aspects--status, power, and ill-feeling among directors and pride in local facilities and headquarters among members--may pose problems in the merger process, these problems can all be minimized by careful pre-merger planning and conservative estimates of benefits in services and financial gains. They can be resolved if directors and managers remain reasonable and sincere and keep the best interests of members at heart.

8. A series of merger studies involving different types of farm supply cooperatives should be made to develop more definite conclusions and guidelines.

a. Such studies should include mergers of several types of cooperatives. The types probably should include two or more

- strong associations, two or more weak associations, one weak and one strong association, two general farm supply cooperatives, a general farm supply and a petroleum cooperative, a farm supply and a rural-suburban supply cooperative, a farm supply and a marketing cooperative, and perhaps two marketing associations with farm supplies departments.
- b. Merger studies should be conducted in two phases. The first phase should be done within the first year after merger
- to obtain more accurate and complete information from the leaders of the original cooperatives as to reasons for merging, problems and procedures involved, and the growth strategy that the leaders have in mind. As the second phase, followup interviews should be made 5 years after the merger so the full effects and results of the unification can be obtained. A series of such studies should provide information to help leaders of other interested cooperatives determine the feasibility and probable benefits of proposed mergers.

Appendix

Factors Considered in Deciding to Merge

Appendix table 1.--Factors influencing the decision to merge as ranked by directors and managers

Factors	Original association							
	a-1	a-2	b-1	b-2	c-1	c-2	d-1	d-2
<u>Degree of importance¹</u>								
Reduced business volume.....	1	4	1	4	3	3	3	3
Competition too keen.....	1	2	1	3	2	2	2	3
Inability to have adequate personnel strength.....	1	3	1	3	3	3	1	1
Overlapping trade area.....	2	1	1	1	3	3	3	3
Restricted geographic area.....	1	1	1	1	1	1	2	3
Duplicate facilities and services.....	2	2	2	3	2	2	4	4
Legal limitations.....	1	1	1	1	1	1	1	1
High costs.....	1	3	1	2	1	1	2	2
Inadequate capital.....	1	4	1	3	1	1	2	2
Inability to control credit....	2	4	2	4	4	4	3	3
Large indebtedness.....	1	4	2	4	3	3	2	2
Decline in net savings or increase in losses.....	1	4	4	4	3	3	2	3
Lack of member interest.....	1	2	1	1	1	1	1	1
Difficult to get members to serve as leaders (directors).	1	1	1	1	1	1	1	1

¹ 1 = not considered. 2 = considered but of little or no importance. 3 = considered of medium importance. 4 = considered very important.

Unification Procedures Used

The procedures used to attain the mergers, the type of support and opposition received, and the principal specific differences resolved are discussed below.

INITIAL STEPS IN CONSIDERING UNIFICATION

All cooperatives included in this study used most of the following procedures or steps in considering unification:

1. Held a special meeting of the board of directors.

2. Contacted legal counsel from the regional association.

3. Held a joint board meeting of the two local cooperatives.

4. Requested merger feasibility study (if desired) from the U.S. Department of Agriculture, a land-grant university, or the regional association.

5. Held another joint board meeting to discuss various methods of combination and to appraise results of any feasibility studies.

6. Formulated the merger plan with legal counsel.

7. Obtained approval of plan by board of directors.

8. Distributed information to membership.

9. Obtained vote of the membership.

In addition, other steps were taken by specific cooperatives as follows:

Outside assistance was used by each association but from different sources. Cooperative a-1 and a-2 and d-1 and d-2 used their regionals' legal counsel and advice to a large degree. Associations c-1 and c-2 were assisted by the State Farm Bureau and by feasibility studies prepared by the State University and the Farmer Cooperative Service, USDA. Cooperatives b-1 and b-2 received a feasibility study and legal counsel from their regional association.

Development and Revision of Unification Plans

Cooperatives included in this study used similar procedures in developing and revising unification plans (app. table 2).

All original cooperatives used legal counsel from their regional associations and/or the State Farm Bureau in developing their respective unification plans.

None of the cooperatives indicated that additional plans or major changes in the initial

plan were necessary, but minor revisions were needed in two cases:

1. Because of a State law, the name of a local cooperative association must contain the word "cooperative". A revision in the plan of merger for d-1 and d-2 was necessary for compliance with this law.

2. Associations c-1 and c-2 revised their original plan with regard to conversion of stock credits to stock and allocated reserves of the surviving association.

Specific Arrangements in the Unification Plans

Specific arrangements in the unification plans were usually made with regard to: (1) The board of directors, (2) employees, (3) capital structure, (4) facilities and services, and (5) basis for membership voting. Selection of the manager of the surviving merged association was left up to the new board of directors although a general understanding often was reached by the boards of the original locals by the time the vote was taken on the proposal. The most important arrangements made in each merger are described below.

ASSOCIATIONS a-1 AND a-2

Board of Directors.--Association a-1 had eight directors before the merger and cooperative a-2 had five. The merger agreement provided for nine directors to be elected from

Appendix table 2.--Source of assistance in developing merger plans and revisions necessary

Original cooperatives	Unification plan developed by--	Revisions necessary
a-1 and a-2.....	Legal counsel from regional association	None
b-1 and b-2.....	Accounting and legal service of regional association and legal counsel of State Farm Bureau	None
c-1 and c-2.....	Legal counsel and staff from State Farm Bureau	Minor
d-1 and d-2.....	Legal counsel from regional association	Minor

the entire area served by the new cooperative. The agreement provided that two of the nine directors were to be elected from former members of association a-2. All directors were to be limited to two consecutive 3-year terms, the same conditions applying in association a-1 before the merger. Prior to unification, cooperative a-2 had no limit on the number of 3-year terms directors could serve.

Capital Structure.--Shares of common stock, share credits, deferred patronage refunds, and patrons' equity reserves of association a-2 were converted, at par value, into shares and partial shares of common stock of the surviving association. Preferred stock was converted into preferred stock of the surviving association at par value.

Since cooperative a-2 was 9 years behind cooperative a-1 in stock redemption, two alternative methods of redemption by the surviving association were described in the merger plan:

1. The board of directors of the surviving association may call stock for redemption or retirement in the order of issuance by years, in which case the oldest outstanding stock will be called first. Whenever common stock of association a-1 issued prior to the effective date of merger is called for redemption or retirement, the board of directors will also call a proportionate share of the stock issued to common stockholders of association a-1 in the order of issuance by years, it being intended that no common stock of the surviving association issued after the effective date of the merger will be retired until all common stock issued by association a-2 prior to the effective date has been retired.

2. The board of directors of the surviving association may retire common stock after the date of merger on the basis of a percentage of all the common stock outstanding, in which event the same percentage of the stock of each common shareholder will be called at the same time, without regard to the date of issuance.

Employment.--Upon the effective date of the merger, all employment in association a-2 ceased and all employees of that cooperative were selected for available positions in the surviving cooperative. Association A later reduced the number of employees after the merger but this was not a specific arrangement in the merger plan.

Facilities and Services.--Since the two original cooperatives combined via merger, association A assumed operation of all facilities and services previously operated by cooperative a-2. The surviving association assumed all debts and liabilities of association a-2 as well as all assets.

ASSOCIATIONS b-1 AND b-2

Board of Directors.--Each original cooperative had a six-man board of directors. The surviving association has nine directors--six from original association b-1 and three from association b-2. The acquisition plan provided for director representation from the territory served by association b-2 in relation to the volume of business contributed by that territory.

Facilities and Services.--On the effective date of acquisition, November 1, 1964, association b-1 assumed responsibility for providing petroleum, fertilizer, feed, and general farm supplies to members previously served by cooperative b-2. The acquiring association, b-1, became the sole judge of what facilities and personnel to utilize and locate in the acquired firm's territory to fulfill that firm's service responsibilities.

Association b-1 purchased all of b-2's plant facilities and equipment, supplies, furniture, fixtures, office equipment, accounts receivable, contracts, leases, and interests in all real and personal property. These items were purchased at the book value of paid assets as carried on the records of association b-2 as of October 31, 1964.

Employment.--Cooperative b-1 had the right, immediately following the execution of the merger agreement, to negotiate with any or all employees of association b-2 regarding their employment after November 1, 1964.

Capital Structure.--Association b-2 agreed to exert all possible effort to assure transfer of at least 75 percent of its outstanding preferred stock to preferred stock in the surviving association at par value. Preferred stockholders would not receive any dividends that had been passed by association b-2. Cooperative b-1 could, at its option, declare the acquisition agreement void if 75 percent of the stock was not transferred.

ASSOCIATIONS c-1 AND c-2

Board of Directors.--Both original cooperatives had seven directors before consolidation. All became temporary board members of the new association until the first meeting of the membership. At this meeting, nine directors were elected to serve on the board of the surviving association. To provide overlapping tenure, three directors, including the president of the county farm bureau, were elected for 1-year terms, three for 2-year terms, and three for 3-year terms.

Capital Structure.--The plan of consolidation contained specific arrangements concerning the conversion of stock and stock credits of the original associations to stock and allocated reserves of the new cooperative. A summary of stock transactions in consolidation is shown in appendix table 3. An owner of stock and/or stock credits in either original cooperative could determine the securities of the new consolidated association which he would receive for presently held stock, all on a dollar-for-dollar basis as to stated or par amounts.

Facilities and Services.--Associations c-1 and c-2 were consolidated into cooperative C and the separate existence of c-1 and c-2 ended with the effective date of consolidation. The surviving association, therefore, assumed ownership and operation of all facilities and services of the original cooperatives.

Membership.--Membership in the new cooperative is limited to patrons who are members in good standing of the county farm bureau or of any incorporated county farm bureau in the State. All members in good standing of associations c-1 and c-2 became members of the surviving association.

Appendix table 3.--Method of converting capital stock and stock credits in co-ops c-1 and c-2 to securities in co-op C

Capital stock in original cooperatives		Co-op C's securities received in exchange
Co-op c-1	Co-op c-2	
Preferred stock, second issue (5-percent cumulative dividend)	Preferred stock (5-percent noncumulative dividend)	Preferred stock (5-percent noncumulative dividend)
Preferred stock, first issue (6-percent cumulative dividend)		6-percent debenture bonds due Dec. 1, 1979 (15-year bond), with option on or before Mar. 1, 1965, to take, in lieu of bonds, preferred stock (5-percent noncumulative dividend)
Patronage common stock and credits (no dividends)	Patronage common stock and credits (no dividend)	

ASSOCIATIONS d-1 AND d-2

Board of Directors.--Association d-1 had five directors before the merger and d-2 had seven. Their merger agreement provided for six directors between the effective date of merger and the first annual meeting of the surviving association. A seventh director was to be elected at large at this first annual meeting. On the effective date of the merger, all directors of association d-1 resigned and its members elected three directors to take office in the surviving association. Cooperative d-2 also elected three directors for the board of the surviving association.

Capital Structure.--Shares of common stock of association d-2 were converted into shares of common stock of surviving association D at par value. Association D has common stock at \$5 a share which entitles each holder to one vote, and nonvoting common stock with a par value of \$5 a share. Dividends on both types may be declared by the board of directors out of any net savings not distributable as patronage refunds.

Preferred stockholders of cooperative d-2 were apportioned one or more subordinated promissory notes bearing interest at 4 percent a year, dated October 1, 1963, and maturing 20 years from that date. Promissory notes were in the principal amount of the par value of the preferred stock so exchanged. No dividends were to be paid on the outstanding preferred stock of association d-2 for any year beginning on or after October 1, 1963, whether or not the stock had been surrendered in exchange for a promissory note.

The oldest outstanding common stock of association d-2 was issued in 1945 and the oldest outstanding common stock of association d-1 was issued in 1942. To deal with all stockholders of both associations on as equitable a basis as possible, the surviving association was first to retire all of the common stock issued in 1945. The stock issued in 1943 was to be retired next, followed by that issued in 1946, 1944, and 1942. Thereafter, stock issued in 1947 and in any subsequent

years was to be retired in the order of issuance.

Employment.--Upon the effective date of the merger, employment with cooperative d-2 ceased and employees who were selected for available new positions became employees of the surviving association. All business of the merged association was transacted in the name of association D upon the effective date of the merger and thereafter.

Although not a specific arrangement in the merger plan, association D has reduced the number of employees since the merger became effective.

Facilities and Services.--Through acquisition, association d-1 became the surviving association D and therefore assumed operation of all facilities and services of cooperative d-2.

Informational Work Done With Members

Reports indicated that more effort was made to acquaint members and patrons with merger plans and benefits before and after the merger by the three more successful unified associations than by the one which had not yet become successful. Principal efforts by each association to give merger information to their members were as follows:

ASSOCIATION A

Prior to merger vote, door-to-door visits were made by the directors of each association to explain the merger proposal to prominent members. There was no serious opposition, but there was a little resistance in a few cases due to lack of understanding. Also, some members of the stronger co-op didn't believe their co-op needed to merge, and some in the smaller co-op wanted to continue operating alone a little longer.

After the merger, sales employees explained the merger in considerable detail to members of the smaller, weaker association.

The manager reported that the merger procedures were satisfactory and that problems encountered were just those related to human nature.

ASSOCIATION B

Before the merger vote, the board of association b-1 (the larger, stronger co-op) held three meetings. Both co-ops met with each of the four county farm bureau boards involved, and one joint meeting of the boards of the two co-ops was held.

The board of association b-2 (the smaller, weaker co-op) held two meetings before the merger. One letter was sent to stockholders and patrons, and a stockholders' meeting was held at which they voted to merge through a sale of assets to association b-1.

After the merger, a letter was sent to all patrons of association b-2 to explain the merger and the operations and plans of the new merged association. Directors and employees of association B then made many personal contacts among former members of association b-2 to explain the new unified organization. They did not believe it necessary to contact members of former association b-1 because they were affected much less by the unification.

ASSOCIATION C

Before the merger, the boards of each association met separately and then jointly. A three-page plan of consolidation, a one-page summary of stock transactions in consolidation, and a proposed set of articles of incorporation and bylaws were mailed to stockholders of each association along with mail ballots. The presidents also sent this material to each employee and asked that questions of members be referred to board members or to the special meeting called for voting on the merger.

Members of the two associations attended a joint special meeting chaired by a representative of the State land-grant university. A representative of the State Department of Agriculture gave a brief talk on the need for mergers and consolidations of farmer cooperatives. The president of each association outlined steps proposed by their boards and then an attorney explained the proposed terms of the plan for consolidation. Following discussion, an affirmative vote was cast by the members of each organization.

After the merger, no special membership meetings or work was done with members or patrons.

ASSOCIATION D

Before the merger, the board of each association met separately and then jointly. A notice of special meetings on the merger was sent to members of each association along with a brief statement of the purpose and reasons for the merger and a few figures on sales, net savings, assets, and liabilities of each.

After the merger, information about the unified association was provided by employees and directors as requested.

Management Selection in the Unified Cooperatives

Selection of a general manager for the surviving associations did not present serious problems in any of the mergers studied. A brief summary of circumstances leading to the selection of each manager follows.

ASSOCIATIONS a-1 AND a-2

The board of the surviving association had no problem in selecting a manager because directors of the two original cooperatives

unanimously endorsed the manager of association a-1 as their choice. Association a-2's manager was not considered since he was stepping down from his post and was glad to relinquish the responsibility to someone else. He was ultimately placed in Association A as a branch manager but has since been replaced.

ASSOCIATIONS b-1 AND b-2

The manager of cooperative b-1 was the only man considered for the job of general manager of the surviving association. He was an aggressive, well-liked manager and had exhibited a high degree of successful leadership in his cooperative. Association b-2 did not have a manager at the time of acquisition, and was glad to have him assume leadership in the new association.

ASSOCIATIONS c-1 AND c-2

No problems were encountered in choosing a manager for the surviving association. The manager of cooperative c-2, although well liked by the board and members alike, was getting old and had little desire to become the new general manager. The natural choice was the manager of association c-1. The manager of c-2 did accept a position in cooperative C as assistant general manager.

ASSOCIATIONS d-1 AND d-2

The manager of original cooperative d-1 became general manager of surviving association D. He was favored over the manager of cooperative d-2 for two primary reasons: (1) He had a better knowledge of all product lines since cooperative d-1 engaged in a variety of commodities and services. In contrast, association d-2 was strictly a petroleum cooperative and general opinion was that its manager was not qualified to manage a more diversified business; (2) the manager of association d-2 had little desire to become the new general manager. He was approaching retirement age and did not want to work much longer. He subsequently became the manager of the petroleum department of the surviving association after the merger but retired in June 1967.

The manager of association D resigned from this position $2\frac{1}{2}$ years after the merger. He indicated that pressures of operating so large and diversified a business were too great. Directors of the surviving association suggested, however, that they were somewhat dissatisfied with his performance and his pessimism towards expansion. With help from the regional association, a new manager was selected to replace him in July 1966.



Other FCS Publications Available

Approaches and Problems in Merging Cooperatives. Information 54, Martin A. Abrahamsen and J. Warren Mather.

Mergers for Stronger Cooperatives. Reprint 208, Staff of Farmer Cooperative Service and Office of General Council.

Ways for Cooperatives to Work Together. Reprint 274, Dale E. Butz.

Statistics of Farmer Cooperatives, 1966-67. Research Report 5, Bruce L. Swanson.

Improving Management of Farmer Cooperatives. General Report 120, Milton L. Manuel.

Effective Informational Devices for Cooperatives. Educational Circular 29, Irwin W. Rust.

Supply Cooperatives. Bulletin Reprint 2, J. Warren Mather and Staff.

How to Start a Cooperative. Educational Circular 18.

Methods of Financing Farmer Cooperatives. General Report 32, Helen H. Hulbert, Nelda Griffin, and Kelsey B. Gardner.

Financial Structure of Regional Farm Supply Cooperatives. General Report 124, Nelda Griffin.

A copy of each of these publications may be obtained while a supply is available from--

**Farmer Cooperative Service
U.S. Department of Agriculture
Washington, D.C. 20250**